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# ROYAL COMMISSION

## ON TAXATION

### HEARINGS

HELD AT

WINNIPEG  
MAN.

VOLUME No.:

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AUG. 26, 1963

BRIEF

#### OFFICIAL REPORTERS

ANGUS, STONEHOUSE & CO. LTD.

BOARD OF TRADE BLDG.

11 ADELAIDE ST. W.

TORONTO

364-5865

364-7383







1 TO THE CHAIRMAN AND MEMBERS  
2 THE ROYAL COMMISSION ON FEDERAL TAXATION

3 Gentlemen:

4 1. The Winnipeg Chamber of Commerce is an associ-  
5 ation of business and professional men and women, numbering  
6 over 2,000, organized for the common purpose of promoting  
7 the commercial, financial, professional, educational and  
8 social conditions of Greater Winnipeg in particular, and  
9 of Manitoba and Canada in general. It was incorporated  
10 by an Act of the Legislature in 1973 as the Winnipeg Board  
11 of Trade to serve the Town of Winnipeg and, even in those  
12 days, its Act of Incorporation specified that any resident  
13 of Manitoba should be eligible for membership. Throughout  
14 its history, therefore, it has sought to serve economic  
15 ends broader than those merely of the City of Winnipeg.  
16 Its members represent every municipality in Metropolitan  
17 Winnipeg and other Manitoba municipalities as well.

18 2. In the light of this background, it may not be  
19 surprising that this Chamber has chosen a broad approach  
20 to the matters under study by this Royal Commission, and  
21 it wishes to assure the Commission, if such assurance is  
22 necessary, that its recommendations are aimed at no narrow  
23 or parochial gain, but at the general good of all Canadians.

24 3. There is a strong consensus among Canadians  
25 that the economy is displaying serious signs of malfunc-  
26 tioning, and that the principal symptoms of this mal-  
27 functioning are the following:

- 28 a) The level of unemployment is disturbingly high;
- 29 b) The Balance of Payments, an important measure  
30 of the health or "illth" of a trading nation,









1 has been in a generally unsatisfactory condition  
2 for some years, despite some recent improvement  
3 in the trading account;

4 c) Canadian control over her own resources and  
5 economic processes is being threatened by too  
6 high levels of American direct investment; and

7 d) The economy lacks buoyancy and sufficient indi-  
8 cation of future growth of a well-balanced  
9 nature.

10 4. Suggestions have not been lacking for putting  
11 things right. Criticism has been levelled at monetary  
12 policy, foreign trade policy, and lack of governmental  
13 planning, to mention a few areas of complaint. These are  
14 subjects which lie outside both the terms of reference of  
15 this Commission and the immediate interest of this brief.  
16 We believe, however, that at least part of the solution to  
17 these problems may well lie within the tax environment in  
18 which our free enterprise system must function, and it is  
19 to this subject that we address ourselves in this sub-  
20 mission.

21 5. We would like to observe at the outset that from  
22 the standpoint of Manitoba as a whole, it is likely that  
23 the most significant circumstance affecting the province,  
24 tax-wise, is that of federal-provincial tax-sharing. This  
25 subject, we gather, is specifically excluded from the terms  
26 of reference of the Commission. We would merely observe,  
27 therefore, that even assuming a highly successful conclusion  
28 to the work of your estimable Commission, for which we hold  
29 the greatest hope, vexing problems will still remain as  
30 regards the equitable sharing of tax revenue within the







1 federal state of Canada. Had this subject been included  
2 in your terms of reference, we would undoubtedly have  
3 considered it incumbent upon us to make a representation  
4 concerning this matter.

5 6. Further, we have not commented upon problems of  
6 taxation at provincial and municipal levels of government.  
7 Whether these are clearly excluded from discussion, we are  
8 not certain.

9 7. Here we would note that we are very much aware  
10 that when a total tax structure is touched at one point,  
11 reactions are likely to occur at others. This, we think,  
12 is chiefly for two reasons: first, experience seems to  
13 suggest that taxing authorities, like nature, abhor a  
14 vacuum. The vacating, or partial vacating, of a tax field  
15 by one level of government is likely to be interpreted by  
16 other levels of government as an open invitation to take  
17 up occupancy; and secondly, it should always be kept in  
18 mind that in the last analysis taxes are borne by persons,  
19 and the total burden of taxation is not likely to be felt  
20 any the less because it is imposed by three separate  
21 authorities upon the same persons. We mention this merely  
22 to emphasize the need for always having in mind the desir-  
23 ability in a country such as Canada, of a balanced and in-  
24 tegrated tax structure, without which tax reforms, in their  
25 ultimate effects, are likely to turn out to be mere  
26 illusions.

27 8. We would also observe that we are aware of the  
28 adage that "an old tax is no tax". The interpretation to  
29 be placed on this presumably is that there is a strong  
30 case for not tampering with a tax system which has been





1 functioning for some time, and to which taxpayers may have  
2 become accustomed. While we recognize that this argument  
3 may have merit in political and administrative terms, we  
4 believe that an easy acceptance of this as a precept would  
5 preclude sufficiently serious consideration of tax changes  
6 which might otherwise do much to improve not only the tax  
7 structure itself, in terms of logic, simplicity, con-  
8 sistency and equity, but also the overall functioning of  
9 the Canadian economy which, as we stated in introduction,  
10 is our primary concern. It is probably unnecessary to  
11 remark that this final observation has been directed not  
12 at the Commission, but through the Commission.

13 9. There are four principal aspects of taxation  
14 which must inevitably be given consideration in any study  
15 of the system. These are the following:

- 16 a) The effect of taxation on the size of the Gross  
17 National Product;  
18 b) The productiveness of the tax system in pro-  
19 viding the revenues which govern ment must have  
20 in order to meet its legitimate responsibilities;  
21 c) The way in which the tax burden is distributed;  
22 and  
23 d) The size of the Gross National Product in the  
24 private sector, i.e. after elimination of  
25 government spending.

26 10. We have attempted to keep all four of these  
27 aspects before us. The main burden of our argument, how-  
28 ever, is that the first is of over-riding importance,  
29 having in mind the present state of development of the  
30







1 Canadian economy. The Gross National Product is the indi-  
2 cator par excellence of the national economy. Within its  
3 magnitude lie most of the problems of the economy and  
4 most of the solutions to those problems: the level of  
5 employment; the standard of living; the international  
6 trading position - in short, the viability of the entire  
7 economic system. In addition to all these, there is a  
8 distinct functional relationship between the size of the  
9 Gross National Product and the size of taxation revenues.  
10 Furthermore, it is a matter of simple arithmetic, for  
11 example, to show that a 20 per cent tax revenue from a  
12 Gross National Product of \$50 billion is superior to a 30  
13 per cent tax revenue from a Gross National Product of  
14 \$30 billion, quite apart from the other great benefits  
15 which would accrue from such a larger national product.

16 11. In keeping with the foregoing views, we now  
17 present our recommendations, with some comment and obser-  
18 vations following them. We would like to impress upon the  
19 Commission the importance which we attach to the "packaged"  
20 nature of these recommendations. They are not merely a  
21 series of disparate suggestions intended to stand alone,  
22 but rather an integrated complex, intended to complement  
23 each other.

24 12. We recommend:

25 a) That the progressive feature be removed from the  
26 personal income tax schedule, that the basic  
27 exemption be increased by \$500, and that there  
28 be levied a flat rate of tax of the order of  
29 15-20 per cent, or lower, inclusive of provincial  
30 income tax, depending on the revenue requirements





of government from time to time;

b) That the corporation income tax be changed to a flat rate of the order of 30 per cent, including provincial corporation tax, also that corporations be permitted to remit consolidated income tax returns, having the effect of offsetting profits in one area of their activities by losses in other areas, for tax purposes;

c) That the federal sales tax be increased, if necessary, for revenue purposes as to rate and broadened in its applicability to include services as well as commodities - that it become, in fact, a broadly based tax on consumption expenditure;

d) That the interpretation of income for tax purposes be extended to include realized capital gains, with relief for capital losses through "loss-carried-forward" provisions; and

e) That a method be provided for payment of federal estate taxes over a fairly long period of time.

13. We have calculated the likely effect of suggested changes in the personal and corporate income tax rates, without taking into account any anticipated increase in Gross National Product growing out of them, to be as follows:

Loss of revenue from personal income tax employing a flat rate of 20 per cent and an increase of \$500 in basic exemption . . . . .	\$165 million
---	---------------

Loss of revenue from corporation income tax employing a flat rate of 30 per cent . . . . .	\$245 million
	<u>\$410 million</u>

(based on 1962 taxation statistics published by D.B.S. for the tax year 1960)







1 14. On the other hand, it appears from an ex-  
2 amination of Canada's national accounts that personal  
3 expenditures on services constitute a very significant  
4 proportion of total expenditure. If a major portion of  
5 such expenditures were included in the sales tax base, it  
6 would appear to be by no means difficult to increase  
7 federal revenues by an amount considerably in excess of  
8 \$500 million. This, together with the proposed capital  
9 gains tax, would more than offset losses in revenue  
10 occasioned by the proposed changes in the income tax.

11 THE PERSONAL INCOME TAX

12 15. Canada is still a relatively young country in  
13 economic terms and thus an essentially dynamic one. It  
14 has many resources still to be exploited and, for that  
15 matter, still to be discovered. It also has important  
16 areas at the levels of secondary and tertiary industry to  
17 be developed. Within our free enterprise tradition, the  
18 required dynamic element has been provided in the past by  
19 talented individuals prepared to work hard and to bear  
20 risks. In addition to this, the growth of large corporate  
21 enterprise has produced the professional executive, whose  
22 income is made up largely of salary.

23 16. Progressive income taxes strike with particular  
24 force at these individuals and are at complete variance  
25 with the logical concept of greater reward for more work.  
26 Our recommendation respecting the personal income tax is  
27 motivated in part by our solicitude for these important  
28 key men in our dynamic society and our desire to increase  
29 these incentives. In addition to this, we fail to discern  
30





1 any clear logic or necessity in progressive income taxes,  
2 despite their rather long tradition of acceptance. We  
3 recognize that a theoretical case had been advanced for  
4 such progression as an automatic stabilizer, but there is  
5 little real evidence to suggest that Canadian governments  
6 have seriously or consistently attempted cyclical budgeting.

7 17. In any case, it seems to us that flat rate in-  
8 come taxes can achieve those budgetary effects almost as  
9 well, and probably with greater predictability. As to  
10 the supposed revenue effects of income tax progression,  
11 these have been largely illusory, in our opinion.

12 18. It will be observed that even with the increase  
13 in basic exemption, which we have proposed in order to  
14 mitigate the effect of the change on those with lower  
15 incomes, the loss in revenue is not great. There might,  
16 in fact, be no loss at all if the removal of progression  
17 results in the stimulus to economic activity which we  
18 think it will.

19 19. We are assuming that Canadians are possessed  
20 of sufficient economic rationality to wish to maximize  
21 their net incomes. If income results from work, and if  
22 work results in productivity, the incentive effect of a  
23 flat income tax rate should, we believe, be beyond argument.  
24 In addition, it should provide certainty and simplicity,  
25 and redirect time and effort away from the unproductive  
26 occupations of attempting to avoid the tax and into pro-  
27 ductive channels. It should also serve to prevent the  
28 distortion of business organization induced by attempts  
29 to avoid taxation.







1 THE CORPORATION INCOME TAX

2           20. The presently existing progression in the  
3 corporate income tax is likewise a tax on efficiency in  
4 many cases, and consequently a drag on productivity. It  
5 also lacks logical justification. We are not contending  
6 that the removal of progression from the corporation  
7 income tax and the imposition of a flat rate of tax of the  
8 order recommended will necessarily cause no loss of  
9 revenue, because it may well do so. Our contention is  
10 based on other grounds.

11           21. The incidence of the corporation tax is a  
12 matter of debate. Some hold that it is passed on to con-  
13 sumers of the product of the corporation through higher  
14 prices; others that it is borne principally by capital;  
15 still others argue that much of it is borne by the employ-  
16 ees of the corporation - that is to say, by labour.

17           22. We do not believe that we can resolve this  
18 controversy. We would observe, however, that if the tax  
19 is borne by capital, it may cause capital to move out of  
20 the enterprise, probably through a reduction of output. If  
21 it is borne by consumers, on the other hand, it will have  
22 effects similar to a sales tax, but without the exemptions  
23 which tend to remove the regressive aspects of the ordinary  
24 federal sales tax. If it is borne by labour, this could  
25 scarcely be considered desirable.

26           23. Any discussion of corporation taxation inevit-  
27 ably leads to the question of the propriety of treating  
28 co-operatives differently from other corporations. We  
29 believe that co-operative patronage dividends should be  
30





1 recognized for what they are, namely distribution of  
2 profit. Whether or not the framework of corporate taxation  
3 is altered, we believe that patronage dividends should be  
4 taxed in the hands of the co-operative at corporate rates.  
5 If corporation income taxes were removed from distributed  
6 corporate profits, an equitable relationship would prevail  
7 between these two forms of enterprise, provided neither  
8 form of enterprise is permitted to funnel profits untaxed  
9 at corporate rates into capital funds by the use of patron-  
10 age dividends satisfied otherwise than by cash.

#### 11 THE SALES TAX

12 24. It has been too readily assumed, in our  
13 opinion, that expenditure taxes of the sales tax type are  
14 inevitably regressive in their incidence. Such is not  
15 necessarily the case, especially when they are qualified  
16 by certain exclusions from tax, as for example, food and  
17 shelter.

18 25. The possibilities inherent in a broadly based  
19 federal sales tax to replace in part taxes on income or on  
20 estates are, in our view, eminently worthy of the fullest  
21 consideration.

22 26. Such taxes may be levied in different ways.  
23 They may be of the present federal type, falling at the  
24 manufacturers' level, in which case they are commonly called  
25 indirect; they may be of the so-called direct type, being  
26 levied at the retail level, as in the case of provincial  
27 sales taxes; or they may be, as they are in some countries,  
28 value-added taxes or turn-over taxes, falling at various  
29 levels of production and distribution.







1           27. We have already made some reference of a  
2 statistical nature to the revenue possibilities inherent  
3 in a broadly based sales tax. Speaking further in more  
4 abstract terms, the advantage which we discern in taxes  
5 on consumption over heavy taxes on income and assets is  
6 partly psychological, and is related to incentives. If  
7 it may be assumed that taxation tends to create dis-  
8 incentive, it becomes then a matter of determining whether  
9 it is better to discourage the acquisition of income, for  
10 example, which normally results from productive work, or  
11 to discourage consumption.

12           28. Heavy taxes on income tend to reduce both  
13 disposable income and the incentive to acquire income and,  
14 consequently, reduce the ability to both consume and save.  
15 A shift of taxation from income to consumption expenditure  
16 should encourage the acquisition of income and hence the  
17 ability to consume, thus tending to maintain consumption  
18 in spite of the tax on consumption. In addition, such  
19 a shift leaves the taxpayer in the happier position of  
20 possessing freedom of choice - that is to say, he is free  
21 to consume or not consume, and not merely free to work  
22 or not to work. If he consumes, he provides revenue to  
23 the government; if he saves, he provides funds for  
24 investment, which should have beneficial effects on the  
25 Gross National Product, on the Canadian ownership of  
26 Canadian resources, and on the future ability of Canadians  
27 to consume, through higher incomes.

28           29. Such taxes, through their remission, also lend  
29 themselves readily to the encouragement of exports, and  
30





1 might greatly increase the competitiveness of Canadian  
2 products in foreign markets.

3 30. It should be noted that our recommendation  
4 with respect to such a form of tax envisages that it be  
5 applied on a broad scale, including services as well as  
6 commodities. It does not envisage, however, many  
7 extensions.

8 CAPITAL GAINS

9 31. In presenting our recommendation that realized  
10 capital gains and losses be included in the determination  
11 of taxable income, we appreciate that we are venturing  
12 into an area fraught with administrative difficulty. We  
13 believe, however, that if we are to argue consistently  
14 for logic in our tax structure, we cannot avoid this  
15 contentious subject. We should like to observe at the  
16 outset, however, that we do not recommend a tax on realized  
17 capital gains unless the personal tax rate does not exceed  
18 a maximum rate of 20 per cent. Our reason for taking  
19 this position is simply that the presence of the progres-  
20 sive feature in the income tax immediately brands the tax  
21 structure as lacking in logic and in equity, and hence  
22 the addition of a similar tax on capital gains would tend  
23 merely to compound the error, and enhance the illogic.  
24 We would again emphasize that this recommendation is an  
25 integral part of our package, and must not be removed  
26 from this context.

27 32. It is sufficiently obvious, we think, that for  
28 reasons of both administrative feasibility and equity,  
29 such taxation must be applied only to realized capital  
30







1 gains, and not to accrued gains.

2 THE ESTATE TAX

3 33. We believe that the ~~federal~~ estate tax under  
4 its present regulations is ~~harsh and disruptive~~. Speak-  
5 ing in quite general terms, the only ~~logic~~ which we can  
6 see in death duties in a society characterized by private  
7 property is that they are productive of revenue. Con-  
8 sequently, the question as to whether they are progressive  
9 or not is hardly relevant. If it is to be retained on  
10 revenue grounds, however, we urge that ~~the~~ terms of pay-  
11 ment be modified in such a way as to avoid the forced  
12 liquidation of assets, particularly those held in going  
13 concerns, in order to meet the present payment deadline.

14 34. It is our belief that these terms of payment,  
15 along with the severity of the tax rates, is responsible  
16 for a good portion of the loss of Canadian ownership and  
17 control. We believe as well that the expectation of  
18 death, under these conditions, has had a further dragging  
19 effect on the willingness of single proprietors to pursue  
20 active and expansionist business policies in the later  
21 years of their lives, and that it has in many instances  
22 caused liquidation and loss of control well before the  
23 demise of such proprietors.

24 35. In summary, it will be seen that we have  
25 recommended that the progressive feature of both personal  
26 and corporation income tax rates be eliminated, that these  
27 taxes be levied at a flat rate, and that any deficiencies  
28 in revenue which may result from these changes be made up  
29 from a broadly based tax on consumption expenditure, along  
30





1 with a broadening of the interpretation of income to  
2 include capital gains. We believe that this is the  
3 correct direction in which tax reform should proceed in  
4 Canada in order to encourage domestic investment, to  
5 improve employment opportunity, and to enhance Canada's  
6 competitive position in world trade. We believe that  
7 these proposals should also reduce the incentive to  
8 avoid or evade, and that they should have the effect of  
9 making the tax system more logical.

10 36. In conclusion, we would stress once more the  
11 importance, from our point of view, of considering the  
12 foregoing proposals in toto. As it appears to us, this  
13 is essential if our suggested revisions are to meet  
14 their objective, namely to create a better over-all tax  
15 environment within which all sectors of the Canadian  
16 economy may more effectively function.

17 Respectfully submitted,

18 THE WINNIPEG CHAMBER OF COMMERCE

19 by Evan McCormick,  
20 Executive Director.

21 Winnipeg, Manitoba.

22 July 26, 1963.  
23  
24  
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#### SUMMARY OF RECOMMENDATIONS

1  
2 1. Co-operatives are legally incorporated. They  
3 trade in their own names, for profit. Their shareholders  
4 have the benefit of limited liability. In every essential  
5 respect they are identical with all other corporations.  
6 The only respect in which they differ is that their  
7 shareholders and their customers are one and the same  
8 group.

9 2. If there were no corporate income tax it would be  
10 a matter of indifference to the central body of their  
11 shareholder-customers whether dividends were based on  
12 share ownership or on purchases. The relative shares  
13 in the distribution would be about the same on either  
14 basis. But when there is a very heavy corporate income  
15 tax and when co-operatives are given nearly complete  
16 exemption from it if they will distribute their profits  
17 as a percentage of sales and not of stock held, they are  
18 given a great and cumulative advantage over their fully  
19 taxed competitors.

20 3. We submit that this gross discrimination against  
21 those who are fully taxed should be ended now and ended  
22 completely.

23 4. No matter what specious reasoning led to the in-  
24 section of these exemptions into the Income Tax Act,  
25 their disruptive effects upon income tax collections and  
26 upon the allocation of resources within the economy are  
27 so great that they can no longer be safely borne.

28 5. Co-operatives have increased their share of the  
29 market at a very high rate indeed. They have accumulated  
30 large capital resources and have arranged their lines of





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1 access to further funds. The limiting factor upon their  
2 further healthy growth is not in access to capital but  
3 in executive man-power; and that is being rapidly cor-  
4 rected. Graphs I, II, and III herein show a rapid in-  
5 crease in the share of the market taken by co-operatives.  
6 Equity and the protection of the national revenue alike  
7 demand full equality between all corporations which trade  
8 for profit, regardless of the breadth of ownership which  
9 some possess.

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SUBMISSION

of the

WESTERN RETAIL  
LUMBERMEN'S ASSOCIATION

to the

ROYAL COMMISSION  
ON TAXATION

Winnipeg, August 26, 1963







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TORONTO, ONTARIO

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PART I

A STATEMENT OF PURPOSE

Mr. Chairman:

1.1 I appear before your Honourable Commission as President of the Western Retail Lumbermen's Association. This Association exists to serve retail lumber merchants in the three prairie provinces and in the adjacent parts of Ontario and of British Columbia. It is "open to any person, firm, or corporation within the territory mentioned in Article 1, primarily engaged in the retail lumber trade for profit, carrying an assorted stock of lumber, sash, doors and other building material sufficient to properly serve the building needs of the community in which he operates ..." (Article 2). It has had a continuous existence since 1890 and is, therefore, among the oldest of trade associations not only in this country but on this continent.

1.2 I may add that we speak here with the full and formal support of The National Retail Lumbermen's Council of Canada. The Council has power to act only with the unanimous approval of the six constituent regional associations. We can therefore claim to speak with the voice of all the retail lumber associations in Canada with a total membership of 2500 yards.

1.3 I appear for one purpose only. The Association directs me to protest against the gross discrimination in favour of co-operatives which now arises out







1 of the present form of the Income Tax Act and of the  
2 regulations made thereunder.

3 1.4 This is not a matter of opposing co-operatives  
4 as such. We are private enterprises in a free econo-  
5 my. If for no other reason than the defense of our  
6 own rights, we must stand ready to defend the rights  
7 of others to venture their capital in trade in any  
8 fashion that seems good to them. Co-operatives are  
9 one of those new forms.

10 1.5 We do not defend freedom of enterprise on this  
11 ground alone, or even mainly. Political and social  
12 freedom can exist only where there is the right to  
13 income free of the power of the state. It is through  
14 private enterprise that men develop the income which  
15 permits them to be independent of, and, if need be,  
16 to challenge the actions of those who exercise power  
17 in the name of the state. It is in these terms that  
18 our main defense of private enterprise is cast. It  
19 is the nourishing soil from which political and  
20 social freedom spring.

21 1.6 We accept the competition of co-operatives,  
22 then, as a something which is necessary if one is to  
23 respect the basic right of free entry into any trade.  
24 We do not speak here in general terms but out of  
25 direct personal knowledge. The Prairie West is going  
26 through a major economic change in which both the  
27 manner of doing business and the locations at which  
28 it is done are changing drastically. The lumber  
29 yards owned by co-operatives, being, on the average,  
30 more recently established, have been able to profit





1 by the experience of the older private yards.

2 1.7 We accept the difficulties of these older yards  
3 as part of the price of progress. In a free enter-  
4 prise society adjustment to new conditions is the  
5 minimum price for survival.

6 1.8 The purpose of this rigorous test of economic  
7 effectiveness is to produce a rising social product  
8 per head of population; and if it is to achieve its  
9 purpose it must be applied as uniformly as possible.  
10 All those who compete for the use of economic resour-  
11 ces should stand on an equal footing under the law;  
12 but if co-operative corporations can slip through  
13 the net of a heavy corporate income tax while their  
14 competitors can not, then this is no longer a win-  
15 nowing test of relative efficiency. The rapid  
16 growth of co-operatives may merely prove that they  
17 bask in the favour of the taxing authority; it  
18 ceases to be a "prima facie" proof of social effi-  
19 ciency.

20 1.9 This is the question which arises inevitably  
21 with respect to co-operatives in Canada. This  
22 manner of operation is designed to produce a cor-  
23 respondence between the size of any individual's  
24 volume of purchases from the co-operative and his  
25 ownership of its share capital. Past purchases  
26 generate the distribution of profits known as  
27 patronage dividends. Those dividends are not paid  
28 in cash but, usually, as shares of capital stock (1)

29  
30 1. Until the early 1950's, it was also common





1 The recipient is not given a choice between receiving  
2 shares or an immediate money payment. A resolution to  
3 the effect that shares alone will be distributed,  
4 when passed at a meeting of the Co-operative, is  
5 binding upon all members. In the ordinary practice,  
6 shares issued in one year are retired a certain num-  
7 ber of years hence (2) so that those who trade with  
8 the co-operatives also provide its operating capital.  
9 Therefore, any individual who is a member of a co-  
10 operative over a long period will tend to have an in-  
11 vestment in it which is in proportion to his pur-  
12 chases from it.

13 1.10 The only condition under which this rough equi-  
14 valence can be disturbed is by a sudden change in the  
15 volume of purchases. For example, a member who had  
16 been a heavy purchaser for years might move away

17  
18 (1) con't....to put patronage dividends into a de-  
19 ferred patronage dividend reserve from which pay-  
20 ments were later made by annual classes. It was  
21 then abandoned in favour of the distribution as  
22 share capital. In the ordinary practice, shares  
23 issued in one year are retired a certain number of  
24 years hence (2) so that those who trade with co-opera-  
25 tives also provide its operating capital.

26 (2) Cases are also known where a given percentage  
27 of the shares outstanding are retired each year  
28 regardless of the recency of their creation.  
29  
30







1 from the district and would be left as a large share-  
2 holder but without current purchases. Similarly a  
3 man who has passed the age of 70 might retire and  
4 reduce sharply the level of his purchases.

5 1.11 Provision is generally made to buy back the  
6 shares held by those who have moved away and also to  
7 re-purchase the shares of those who attain the age  
8 of 70 or, at most, of 75. Neither of these correc-  
9 tions of an imbalance between investment in the co-  
10 operative and purchases from it can be claimed as a  
11 matter of right; but, if the financial position of the  
12 co-operative makes it possible to do so, the invest-  
13 ment is usually reduced or eliminated by a special  
14 payment.

15 1.12 Given this general correspondence between in-  
16 vestment in and purchases from the co-operative, it  
17 is a matter of indifference to the great body of  
18 their members whether their proportion of the profits  
19 earned by the corporation is calculated upon the  
20 shares held or upon purchases. Their interest is in  
21 the net gain to them and a shift from one manner of  
22 calculation to the other would produce only the most  
23 minor changes in relative shares.

24 1.13 However, under Canadian law and regulations the  
25 manner of calculation is not a trifling matter. If  
26 the earnings are distributed as dividends upon the  
27 shares then they attract corporate income tax while  
28 in the hands of the corporation, at the rate of 21  
29 per cent on the first \$35,000 and at 52 per cent on  
30 any excess over that amount. They attract tax a





1 second time under the personal income tax in the hands  
2 of the recipient.

3 1.14 There is no way in which an ordinary corpora-  
4 tion can avoid these consequences. Its shareholders  
5 and its customers are two distinct groups. It  
6 raises its operating capital from the first under  
7 an implied promise to use it fruitfully and to pay  
8 out dividends as and when it is able; it sells to  
9 the second group in an arm's length transaction.  
10 Its manner of calculating its profits for distri-  
11 bution are compelled upon it by the basic facts of  
12 its structure.

13 1.15 The position of the co-operative is totally  
14 different. Its shareholders and its customers are  
15 one and the same. There is no need for it to de-  
16 clare a dividend upon its stock in order to benefit  
17 those who provide the capital. To do so would  
18 attract corporate income tax and therefore reduce  
19 sharply the amount of the dividend which could be  
20 paid. It would also expose the shareholders to  
21 personal income tax upon that part of the remainder  
22 of the earnings which finally reaches them. It  
23 merely pays a dividend upon patronage to achieve  
24 the same result. By so doing it escapes nearly the  
25 whole of the Corporate income tax upon its own  
26 earnings and the patron shareholders who are the  
27 recipients of the distribution also escape personal  
28 income tax if the dividend is calculated upon items  
29 purchased for personal consumption.

30 1.16 The law does provide for the payment of income





1 tax upon patronage dividends received in respect of  
2 goods or services which are the operating expenses  
3 of a business, but the addendum at the end of this  
4 section indicates that there is probably a substan-  
5 tial gap between the letter of the law and its  
6 uniform application to all those who are taxable  
7 under it.

8 1.17 This is an enormous advantage, a premium put  
9 upon the co-operative organization not because it is  
10 any more efficient but because it does not deal at  
11 arm's length with its customers. They are also its  
12 shareholders and their economic interest is in get-  
13 ting money or money's worth, net of taxation, from  
14 it, and not in the manner in which that gain is  
15 computed or paid.

16 1.18 This is a shameful exercise of favouritism  
17 toward a group which possesses great political  
18 power.

19  
20 1.19 There is no argument upon the point of prin-  
21 ciple. This matter was considered at length by a  
22 Royal Commission in the 1940's and it was then  
23 decided that co-operative corporations had income  
24 as such. The "Income Tax Act" accepts the fact  
25 that they have income and provides that they shall  
26 be taxed upon a certain minimum amount of the in-  
27 come left after the major part has been appropriated  
28 to patronage dividend account, a loop-hole big  
29 enough to accommodate a six-horse team and a circus  
30 wagon.







1 1.20 We do not ask that they be penalized in any  
2 way. We merely say that if, in logic and in the  
3 letter of the law, co-operative corporations are  
4 recognized as having income then they should be  
5 taxed upon that corporate income exactly as are  
6 other corporations.

7 1.21 No other conclusion is possible. Co-opera-  
8 tives are incorporated as separate and distinct  
9 legal persons. They trade as principals and in  
10 their own names. Their shareholders have the ad-  
11 vantages of limited liability. At no point in  
12 their operations do they differ in any essential  
13 respect from their competitors. Only after the  
14 financial year is complete and an audited statement  
15 is in hand do they proceed to distribute the profit  
16 which the corporation has earned; and then they come  
17 under the special exemption for patronage dividends  
18 which is drawn in general terms but of which they  
19 alone can take full advantage because their share-  
20 holders are also their customers.

21 1.22 This is a totally capricious form of exemption.  
22 It makes the taxation of income in the hands of the  
23 corporation depend not upon its nature but on the  
24 manner in which it is subsequently distributed.  
25 One has only to think of what would happen if all  
26 corporations were provided with an alternative route  
27 by which they could transfer dividends to their  
28 shareholders without attracting corporate tax to  
29 the income from which such dividends are paid, to  
30 see how preposterous this situation is.





1 1.23 If all could escape taxes by the proper legal  
2 footwork, how many would remain as contributors to  
3 the public purse?

4 1.24 We know that some have despaired of rectify-  
5 ing this situation and contemplate the repeal of the  
6 corporate income tax and its replacement by a gen-  
7 eral sales tax at a high rate and with a minimum  
8 number of exemptions. That course would end the  
9 discrimination in favour of co-operatives which  
10 now exists.

11 1.25 We suggest that this is giving up too early.  
12 If one were moving from a period of very light  
13 taxation, - say 5 per cent of the national income -  
14 into a situation where the total burden would be of  
15 the present order, then one might regard a sales  
16 tax as more desirable than a corporate income tax.  
17 But in fact the corporate income tax has been in  
18 effect for over 40 years. The community is adjusted  
19 to it. And in the particular case of the discrimi-  
20 nation in favour of co-operatives nothing more is  
21 required than a uniform application of the tax to  
22 all corporate tax payers. In those terms, this  
23 seems a very modest request.

24 1.26 We regret taking up so much of the time of  
25 the Commission upon what must seem an elementary  
26 statement of the truth, and one which others have  
27 already brought to your attention; but until this  
28 gross injustice is rectified, those who are now being  
29 slowly forced out of business by this concealed sub-  
30 sidy cannot help but protest against it at every





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1 possible opportunity.

2 1.27 We feel that in so doing we not only serve  
3 our own interest in survival, we also serve the  
4 national interest. For better or for worse we live  
5 in a social service state. A government which is  
6 going to distribute benefits with a free hand must  
7 collect taxes with a heavy one. Discriminations  
8 which might be bearable when the rate of tax is low,  
9 become totally insupportable when it is heavy. In  
10 the latter situation, gross discrimination is, in  
11 the end, destructive of those who suffer from it,  
12 and government is compelled, in its own interest,  
13 to erase those discriminations which prejudice its  
14 own sources of revenue.

15 1.28 The Canadian Tax Foundation has already point-  
16 ed out to you that government expenditures are  
17 rising more rapidly than national income. The  
18 Dominion government has been in deficit in every  
19 year since 1957 and the net debt has been rising  
20 sharply ever since that date. (3)

21  
22 (3) A less tolerant view of the matter would  
23 put the gross debt as being the more informative fi-  
24 gure because of the poor quality of many of the things  
25 treated as active assets. In that case, the year  
26 ending March 31, 1950 marks the post-war low. Since  
27 then, there has been an almost continuous rise. The  
28 gross debt was \$16,751 millions at March 31, 1950,  
29 it was \$22,908 millions at 1962 and is still rising  
30 sharply. CANADA YEAR BOOK, 1959, p. 1063, and





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1 that what was the mere shadow of a man's hand when  
2 the McDougall Commission met is now a major problem  
3 and threatens to become an engine of destruction of  
4 the corporate income tax if co-operatives are not  
5 now to be brought to a basis of equality before the  
6 law with other business enterprises. To that task  
7 we now turn.

8 ADDENDUM TO PART I:

9 1.A.1 As was indicated above, patronage dividends  
10 received on goods or services charged as business  
11 expense are part of business income and therefore  
12 subject to income tax in the hands of the recipient.  
13 In an effort to find out how this part of the Act  
14 was applied a visit was made to the Income Tax  
15 Building in Regina on Friday morning, June 14.

16 1.A.2 The question which was put was whether local  
17 co-operatives were required by the Department of  
18 National Revenue - Taxation to report patronage  
19 dividends paid on slips analogous in character to  
20 T-5 slips on which all corporations are required to  
21 report dividends paid upon their stocks. The woman  
22 at the information desk referred the inquirer to the  
23 corporate section on the second floor with instruc-  
24 tions to ask for a corporate assessor. When the re-  
25 quest was repeated on the second floor, a young man  
26 was produced who said that he really couldn't say  
27 what the procedure was. He knew that if the Depart-  
28 ment found that taxable patronage dividends had been  
29 received it insisted on their inclusion in taxable  
30 income; but he couldn't say what steps the Department







1 took to inform itself. He thought that if one were  
2 really interested and wanted definite information  
3 one should go across to the offices of Federated  
4 Co-operatives Limited. They would surely know what  
5 was *done*.

6 1.A.3 It was then suggested that there was something  
7 odd about being sent by the Department to an outside  
8 organization to find out what the departmental  
9 practice was. Would he please take the inquirer to  
10 his superior officer?

11 1.A.4 At this suggestion, he sharpened up consider-  
12 ably. That was not really necessary. If one would  
13 wait a moment, he could easily get the answer. He  
14 left the room for a period so short as to throw  
15 doubt on the possibility that he consulted with any  
16 other person, then came back to say that co-opera-  
17 tives were not required to make any report of pa-  
18 tronage dividends paid.

19 1.A.5 What proportion of co-operators now escape  
20 taxation upon patronage dividends could, of course,  
21 be known only by a matching of the records of the  
22 co-operatives with the returns filed with the  
23 Department of National Revenue. A sampling study  
24 which would answer the question is surely not beyond  
25 the capacities of a Department whose annual publi-  
26 cation TAXATION STATISTICS was one of the first to  
27 make use of this technique for developing useful  
28 knowledge quickly and relatively cheaply. Until  
29 such a study is produced, it is probably reasonable  
30 to assume that good assessors with access to local





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1 sources of information catch a substantial propor-  
2 tion of those large operators whose patronage divi-  
3 dends are proportionately large. How many assessors  
4 fall in that category is uncertain; and lacking the  
5 basis of a report from the co-operatives of patronage  
6 dividends paid, it seems reasonable to assume that the  
7 smaller amounts escape the good assessors and that  
8 amounts large and small escape those assessors who  
9 are less competent and/or who lack local knowledge.

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## PART II

### THE GROWTH OF CO-OPERATIVES IN DISTRIBUTION

2.1 The best general measure of the nation-wide growth of co-operatives in the distribution of goods is contained in the annual report entitled CO-OPERATION IN CANADA which is prepared in the Economics Division of the Dominion Department of Agriculture. The sales of what are there termed purchasing co-operatives and which will be referred to herein as consumer co-operatives (as opposed to marketing co-operatives whose primary purpose is the sale of goods produced by the members) are there reported as \$388 million in 1961. The low point in the series was reached in 1933 at \$7.4 million. From that point the growth was unbroken except for a slight halt at 1954.

2.2 Graph I shows the values of each year. It will be noticed that this graph is on ratio scale so that vertical distances, in either direction, represent equal percentage changes. The range of values is so great, representing a rise of more than 50-fold, that the more conventional arithmetic scale would tend to conceal rather than reveal the real power of the continuing upward drive.

2.3 The numerical values for this and for all other graphs are given in an annotated appendix for those who wish to examine the figures as well as to see them in graphic form.







1 2.4 The data on co-operatives produced by the  
2 Dominion (1) are valuable as giving a general view  
3 of changes in the volume of sales over the whole  
4 country, but for any other purpose they leave a  
5 good deal to be desired.

6 2.5 If one wants more detailed data one quickly  
7 comes to the most complete set of statistics,  
8 namely, those for the province of Saskatchewan  
9 which are produced by the Department of Co-operation  
10 and Co-operative Development of that province. It  
11 is also the province in which the penetration of  
12 the market by co-operatives is deepest.

13 2.6 Graph II shows the growth in retail sales in  
14 Saskatchewan, by type of co-operative from 1937 to  
15 1955, and in total from 1937 to 1961. The average  
16 rate of increase in the total was a little over 14.1  
17 per cent per year, that is, compounded annually.

18 2.7 Graph III shows some of the detail behind  
19 that growth. The number of retail co-operatives  
20 went down from a maximum of 525 in 1946 to a  
21

22 (1). Namely, CO-OPERATION IN CANADA which  
23 appears annually and DIRECTORY OF CO-OPERATION  
24 ASSOCIATIONS IN CANADA which appears irregularly.  
25 The most recent issue is dated 1962. Previous  
26 issues are dated 1936, 1945, 1949, and 1954. The  
27 listing is alphabetical, but the type of business  
28 done is indicated by symbols and the volume by  
29 ten numbered classes.  
30





1 minimum of 325 in 1961. This trend will continue.  
2 The ANNUAL REPORT of the Saskatchewan Department of  
3 Co-operatives and Co-operative Development has ex-  
4 pressed the thinking and anticipated the action of  
5 co-operatives in past years. The following comment  
6 from its 1962 REPORT is, therefore, of special  
7 interest:

8 2.7(b) Some associations have felt that in order  
9 to obtain better services and greater savings  
10 for their members, that it was to their advan-  
11 tage to amalgamate with larger associations.  
12 This trend toward centralization which commen-  
13 ced a few years ago, is continuing. In some  
14 cases the need for the co-operative has ceased  
15 to exist due to the change in population, while  
16 in other cases the trend towards the establish-  
17 ing of trading centres in the larger towns has  
18 made it uneconomical for some small associations  
19 to continue to operate in competition to co-  
20 operatives located in the larger centres. As  
21 a result a number of associations have discon-  
22 tinued operations and dissolved. With the  
23 program of railway abandonment that has been  
24 started it is quite likely that a number of  
25 the present smaller consumer type co-operatives  
26 will disappear during the next few years. (2)

27  
28 (2). Ibid., pp. 27-8.  
29  
30





2.8 The number of members in such retail co-operatives is expanding. Over the whole period 1937-1961 it was at a rate of 10.0 per cent per year. Even in the recent period between 1959 and 1961 when one might have expected it to slow down or stop, it was about 4 and 3/4 per cent per year.

2.9 The change in the total investment by the numbers in co-operatives, commonly described as members' equity (3) is the sharpest of all. It stood at \$1,161,600 at 1938 and rose to \$36,705,000 at 1961 or a little more than ten fold. This is an average annual rate of change of about 14.8 per cent. Even if the early years are struck off as being unrepresentatively high and the computation based on the 12 years 1949-1961, the rate still remains high at about 11.1 per cent per year.

2.10 The net results of these changes show up in Graph IV which puts the position of the average retail co-operative in Saskatchewan by dividing the aggregates by the number of co-operatives in operation. The results are rather startling. The average number of members per co-operative has risen from 72 in 1937 to 683 at 1961; the average volume of sales from \$11.0 thousand at 1937 to

---

(3). This is the sum of share capital, statutory reserves and undistributed surplus which together make up the net worth of the co-operative, plus the liabilities to members.





1 \$260.7 thousand at 1961; and the average members'  
2 equity from \$3.8 thousand in 1938 to \$112.9  
3 thousand in 1961. These changes are at average  
4 rates of 9.4, 13.5 and 15.1 per cent per year  
5 respectively.

6 2.11 The increase in members' equity is, of course,  
7 extraordinarily rapid. Were it to continue, then  
8 the average retail co-operative in Saskatchewan  
9 would have a members' equity of \$500,000 in less  
10 than 10 years, which, at the average ratio of recent  
11 years, would support sales of about \$1.2 millions  
12 yearly.

13 2.12 These drastic increases in average size show  
14 how rapidly the co-operative movement as a whole is  
15 growing; but that is only part of the picture.  
16 When the underlying data are analyzed it is seen  
17 that, to an increasing degree, this growth is con-  
18 centrated in the larger, relatively urban stores.  
19 Graph V which follows shows the position at 1954  
20 and at 1961 in the three Prairie provinces. (4).  
21 At 1954, 33.5 per cent of all retail co-operatives  
22 in the Prairie provinces had only 6.2 per cent of  
23

24 (4). This Graph is based on the data in  
25 Department of Agriculture, DIRECTORY OF CO-OPERA-  
26 TIVE ASSOCIATIONS IN CANADA, 1954 (Ottawa: The  
27 Queen's Printer, 1956) and Ibid., 1962 (Ottawa:  
28 mimeo.) It seemed desirable to use this more in-  
29 clusive data here than to stay with those for the  
30 province of Saskatchewan only.







1 total co-operative retail sales whereas the 1.2  
2 per cent of all stores at the other end of the  
3 scale had 28.8 per cent of total sales. By 1961,  
4 39.9 per cent of all stores had only 4.7 per cent  
5 of sales, whereas the stores of the largest size  
6 had grown to 3.9 per cent of the total number with  
7 53.0 per cent of total sales.

8 2.13 A very considerable effort has been given to  
9 creating a public image of co-operatives as small  
10 operations serving a scattered farm population,  
11 struggling to survive in a world of hostile giants.  
12 It is one of the finer fictions created by a very  
13 large and active public relations department. The  
14 fact is that the largest co-operatives have a sales  
15 volume and a net investment, that is, members'  
16 equity, which is quite beyond the reach of any or-  
17 dinary merchant, and co-operatives are reaching out  
18 strongly for urban business. For example, Sherwood  
19 Co-operative Association Limited of Regina had  
20 members' equity in 1961 of \$1,857,000, total assets  
21 of \$4,142,000 and sales of \$5,561,000. This is a  
22 big operation in any terms, big enough to draw to  
23 itself managerial capacity of the first order and  
24 to compensate it adequately. And it is not alone  
25 in size, but is followed by a number of others which  
26 are also major merchandising outlets.

27 2.14 Furthermore, the retail outlets are only part  
28 of the picture, and perhaps not the dominant part.  
29 They are in large part supplied by wholesale houses  
30 in whose ownership they participate.





1 2.15 The dominant management group in this respect  
2 began with the Saskatchewan Federated Co-operatives  
3 Limited. In the 1954 financial year it absorbed  
4 the Manitoba Co-operative Wholesale Limited and the  
5 name was changed to Federated Co-operatives Limited.  
6 At the end of the 1961 financial year, Alberta  
7 Co-operative Wholesale Association Limited was  
8 merged. This was the final consummation of a de-  
9 velopment that had been in the making for over two  
10 years.

11 2.16 Graph VI shows the sales of Federated Co-  
12 operatives Limited and of its predecessor corpora-  
13 tions by provinces, from 1937 for Manitoba and  
14 Saskatchewan and from 1951 for Alberta. The power  
15 of the upward drive in sales is evident in each  
16 line. Even Saskatchewan which might be expected to  
17 show some signs of saturation is still moving up  
18 strongly.

19 2.17 It is almost inevitable that a wholesale or-  
20 ganization of this kind should gradually slip into  
21 a place of dominance in the whole structure. The  
22 retail co-operatives are in constant touch with it  
23 as a matter of daily business; they are in touch  
24 with each other only occasionally, perhaps in a con-  
25 ference which the wholesale group has organized.  
26 No matter what the problem which faces an individual  
27 retail co-operative, it is almost certain that it  
28 will have already come to the attention of the  
29 wholesaler and the latter's officers will know how  
30 it has been successfully solved at some other point.





1 2.18

2 Federated Co-operatives Limited operates an  
3 audit department which services nearly all the re-  
4 tail co-operatives. There are, no doubt, many ad-  
5 vantages to the latter from this service; but it  
6 also means that the managerial corps of the whole-  
7 sale has the most intimate and detailed knowledge  
8 of each retail organization; the degree to which  
9 the local board of directors is capable of direct-  
10 ing the business; the extent to which it has the  
11 support of the tributary population; and the quality  
12 of the local management. It is the natural broker  
13 to which a young man employed by a local co-opera-  
14 tive will turn to find a managerial post in another  
15 town.

15 2.19

16 Indeed the process has gone so far that  
17 Federated Co-operatives Limited will, upon occasion,  
18 take over the management of a retail co-operative  
19 at a fee, and provide a resident manager who will  
20 be acceptable to the local board. (5)

20 2.20

21 Federated Co-operatives Limited is also fully  
22 organized to make full market and management surveys

23

24 (5). For example the Board of Directors of  
25 Kindersley Co-operative Association Limited in its  
26 report for the year to January 31, 1961 congratulated  
27 itself on signing a management agreement with  
28 Federated Co-operatives Limited. At the time its  
29 sales were in the order of \$1.5 million. It is  
30 not alone in making such an arrangement.

30







for local co-operatives which are planning expansion. The extent to which Federated takes over the whole programme is, perhaps, best expressed in its own words:

2.21 The matter of enlarging present premises as compared to replacement with new; the place of the co-operative in its community and the real need for larger premises to adequately serve its members; the attitude of members to their co-operative; probable future trends in co-op support from the area; and the suitability of available locations are some of the important matters which must be studied.

2.22 Provided research offers favourable answers, an expansion project may then be recommended by FCL specialists, who then prepare for the Board of Directors of the retail co-operative recommendations concerning maximum cost, location, and type of services which might be considered.

2.23 Methods of financing, whether through loans from members, or other borrowings, are also recommended.

2.24 If an agreement is reached, FCL is then able to undertake supervision or performance of a complete building project from the acquisition of land to drawing up plans for the building based upon merchandising needs of the premises, and then carry out the actual construction.

2.25 Store fixtures can be constructed in our own shop at Saskatoon, while refrigeration units,





- 1 cash registers, and the like, are obtained from  
2 selected suppliers.
- 3 2.26 Once the premises are nearing completion,  
4 merchandise specialists take over the complicated  
5 matter of arranging merchandise in the store,  
6 training staff when necessary, and finally,  
7 decorating in readiness for the opening cere-  
8 monies.
- 9 2.27 All these services are performed at no cost  
10 to members or on a subsidized basis. Thus, by  
11 working together through their own wholesale,  
12 retail co-operatives provide themselves with the  
13 services of merchandise, technicians, engineers,  
14 architects, drafting, blueprinting, estimating,  
15 and many others - all engaged by FCL to serve  
16 its members.
- 17 2.28 During 1962, FCL participated in some 75 pro-  
18 jects for remodelling, enlarging, or building  
19 of new premises. The total value of these, ex-  
20 cluding land and inventories, was over \$5,000,000
- 21 2.29 Now under way, or being planned, is another  
22 116 projects involving total expenditures of  
23 \$8.8 millions.
- 24 2.30 In addition a number of co-operatives performed  
25 building projects of one kind or another without  
26 FCL assistance. (6)





1 acting jointly, puts a second step in the process  
2 which immeasurably weakens the democratic control.  
3 The wholesale nominally reports, not to the indi-  
4 vidual shareholders of the retail co-operatives,  
5 but to their Boards of Directors. And when the  
6 wholesale begins to control the local bodies the  
7 whole theory of democratic control goes out the  
8 window. The management may serve what it conceives  
9 to be the true interests of the individual membership  
10 to the best of its ability; but it is no longer com-  
11 pelled to report in any meaningful sense of the word.  
12 It has become an autonomous controller of the whole  
13 structure.

14 2.35 This brief statement might sound excessive if  
15 it were not founded on the thinking of Federated  
16 Co-operatives Limited as embodied in the annual  
17 report for 1958. (8). The particular section to  
18 which reference is made begins with a statement of  
19 the need for integration of the wholesale and retail  
20 functions so that the operation as a whole will  
21 achieve its maximum impact. "Adequate premises and  
22 service which will appeal to and attract people  
23 are a necessity ..."

24 2.36 Integration will also demand the inclusion of  
25 other lines with the standard grocery items to give  
26 one-stop shopping for most common needs.

27 2.37 Secondly, the present trend is toward adver-

28  
29 (8). See Part IV thereof, "Eyes on Today -  
30 Mind on Tomorrow", pp. 43-5.





1       tising by manufacturers to create demand which re-  
2       tailers must then meet. This is contrary to the  
3       interest of the co-operative movement which is best  
4       served by marketing goods under the co-op label  
5       and pushing them at the point of sale.

6 2.38       These are the long-profit items and it is  
7       essential to push them with all necessary force,  
8       and, of course, to play down the competing items  
9       which manufacturers advertise.

10 2.39       Finally, this brings up the question of the  
11       small co-operatives. Modern tendencies toward  
12       greater mobility are bringing more shoppers into  
13       the larger centres where they can have a wider  
14       selection in stores of more modern design. In some  
15       areas, the problem has been solved by amalgamation;  
16       but there are others where the same forces are opera-  
17       ting, but where local loyalties are stronger than  
18       business judgment.

19 2.39(b)    The solution to this problem is one which co-  
20       operators themselves must decide. But it must  
21       be emphasized that the solution cannot be long  
22       delayed, for doing so might mean the develop-  
23       ment of a crisis at some co-operatives as ability  
24       to provide service and patronage refunds declines  
25       with further loss of patronage. Local pride of  
26       ownership and reluctance to change must be  
27       weighed against hard economic facts. Timely  
28       action is necessary if a progressive step is to  
29       be taken as an alternate (sic) to decay. A key  
30       question which should be answered now is: Who







1 should take the initiative in suggesting amal-  
2 gamation? Should it be PCL or should the mem-  
3 ber associations themselves take the first  
4 steps? And when? (9).

5 2.40 The whole feeling of the section is of a man-  
6 agement which is willing to do a good deal to main-  
7 tain the fiction of a democratic grass-roots organi-  
8 zation so long as that course pays off in operating  
9 profits; but which is also determined to create a  
10 hard-hitting integrated operation represented at  
11 the retail level by large stores which will carry  
12 out a centrally-directed policy.

13 2.41 If democratic control should get in the way  
14 of the realization of that ambition, there will be  
15 a real regret; but the plan will be fulfilled.

16 2.42 The indication, are that this is part of a  
17 long-range plan which will move to fulfillment as  
18 rapidly as possible. As evidence of the continuing  
19 interest in integration, one may note the following  
20 report of a 1963 managers' conference called by  
21 Federated Co-operatives Limited.

22 INTEGRATED FUNCTIONS KEY TO CO-OP SUCCESS

23 2.43 Co-operative organizations which integrate  
24 their wholesale and retail functions have the  
25 greatest chance of commercial success, accord-  
26 ing to Seymour Barsky, vice-president of the  
27 Wakefern Food Corp. of New Jersey.

28 2.44 Mr. Barsky was the featured speaker Tuesday  
29

30 (9). Ibid., pp. 44-5





1 at the Federated Co-operatives Ltd. managers'  
2 conference in Hotel Saskatchewan.

3 2.45 Wakefern Foods is a wholesale supply co-opera-  
4 tive owned by a group of independent supermarket  
5 operators. Mr. Barsky described it as a cor-  
6 porate structure in the truest sense of the  
7 word, rather than a pure co-operative.

8 2.46 Speaking on the theme adopted by the conference,  
9 integrated action by all facets of the co-opera-  
10 tive organization, Mr. Barsky illustrated the  
11 success of such integration with examples from  
12 the development of his own firm.

13 2.47 Wakefern Foods began with eight member stores,  
14 each store retaining an individual name.

15 ONE CONTROL

16 2.48 We found this individuality was unsuccessful  
17 and so all merchandising was put under the con-  
18 trol of the central organization.

19 2.49 In this way we gave the consumer the confi-  
20 dence that comes with buying from a large es-  
21 tablished chain at the same time we maintained  
22 the warmth and personality of the private store.  
23 Mr. Barsky said.

24 2.50 This is the sort of thing Federated Co-opera-  
25 tives has the chance to do. This is your ad-  
26 vantage over your competitor, he said.

27 2.51 As Wakefern grew it was discovered that in-  
28 dividual buying was not economically wise. For  
29 this reason wholesale warehouse established an  
30 assessment of one per cent of grocery purchases





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1 for all retail outlets.

2 CHANGE MADE

3 2.52 The stores then had to pay for purchases out-  
4 side the organization while also paying the  
5 assessment.

6 2.53 This gradually led to the abolishment of  
7 outside buying.

8 2.54 The Wakefern warehouse does all buying for  
9 the chain, filling orders from each of its  
10 stores. It makes this profitable to the store  
11 owners by providing discounts for early payment  
12 and supports these discounts with penalties for  
13 bills in arrears.

14 2.55 Mr. Barsky listed the various advantages to  
15 the merchants to be found in such an integrated  
16 structure.

17 2.56 The billing procedure is simplified with the  
18 retail end having little invoice work. Storage  
19 within the stores is reduced. Merchandising  
20 problems at the retail level are reduced, giving  
21 the store manager more time to devote to the  
22 running of the store.

23 2.57 A technical knowledge of the organization in  
24 all its parts is able to predetermine gross  
25 profit as well as the most efficient methods  
26 of buying and of space allocation.

27 2.58 We have refined this system to the point  
28 where we know exactly what we are doing and  
29 exactly where we are going. No individual  
30 retailer could hope to afford such a service,







1 Mr. Barsky said.

2 2.59 The cumulative experience we have is our most  
3 important asset. (10).

4 2.60 Federated Co-operatives Limited has shown  
5 itself to have a powerful management team with long-  
6 term plans which are being rapidly fulfilled. It  
7 is adequately financed, not only by its close ties  
8 with credit unions and with the Saskatchewan Co-  
9 operative Credit Society Limited, but also by its  
10 own borrowing power. In the third quarter of 1960  
11 it created a 6 per cent bond issue with an author-  
12 ized issue of \$10,000,000. (11) It proposed to use  
13 \$3 millions of the estimated proceeds for working  
14 capital and \$6.9 millions "for loans to member co-  
15 operatives to enable the said member co-operatives  
16 to expand their facilities to meet the demands of  
17 their respective members". (12)

18 2.61 In pursuance of this policy it finances local  
19 member co-operatives in programmes of expansion.

20  
21 (10) THE LEADER-POST, Regina, March 13, 1963.

22 p. 13.

23 (11) The prospectus is dated August 25, 1960.

24 The bonds are to be 15-year bonds as and when  
25 issued; but provision is made for their redemption  
26 at prices fixed in advance, but below par, if pre-  
27 sented for redemption before maturity. The issue  
28 was not underwritten.

29 (12) IBID.





1 It will also go into a location at which a nucleus  
2 exists and finance the creation of a new local co-  
3 operative, taking a mortgage as security. (13)

4 2.02 The balance sheet of October 31, 1962 shows,  
5 under the heading of "other assets" two items which  
6 are of interest in this connection, namely:

	Amount at Oct. 31, 1962	Increase therein, since June 30, 1960
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8		
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10		
11		
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14 2.63 At 1962, these two items together equalled  
15 56 per cent of the net investment in fixed assets  
16 plus investment in, and advances to, wholly-owned  
17 subsidiaries.

18 2.64 In addition to the items appearing upon the  
19 balance sheet, note 3 thereto states - "There were  
20 contingent liabilities outstanding in respect of  
21 guaranteed loans for others in the amount of  
22 \_\_\_\_\_

23 (13) See for example, DUN'S BULLETIN (MANI-  
24 TOBA, SASKATCHEWAN AND ONTARIO LAKEHEAD) of  
25 February 21, 1963, p. 1 which records a chattel  
26 mortgage on Carman Co-op (1959) Ltd. for the  
27 benefit of Federated Co-operatives Limited in the  
28 amount of \$100,000.





1 \$1,203,000 and \$4,178,000 in respect of long-term  
2 leases. (14)

3 2.65 One further aspect deserves notice. The  
4 co-operative movement as a whole has shown itself  
5 fully alive to the crucial problem of getting  
6 good men and training them well. For some years  
7 a Co-operative College has been in existence and  
8 it has recently moved into a new set of buildings  
9 in Saskatoon which were erected at a cost of  
10 \$400,000. In the year 1962 there was an attendance  
11 at its special courses of over 1,000 persons of  
12 whom nearly 600 were employees of retail co-opera-  
13 tives. (15)

14  
15 (14) The 1960 prospectus noted above showed  
16 the following under item 10 of the required statu-  
17 tory information:

18 "11 (e) Guarantee performance of a 20 year  
19 lease of shopping centre including service station  
20 on behalf of Red River Co-operative in Winnipeg  
21 being their second shopping centre, with minimum  
22 yearly payments of \$55,790."

23 One begins, then, to see how co-operates are  
24 able to finance so many shopping centres; one also  
25 sees how Federated Co-operatives Limited is able  
26 to make suggestions about co-ordination of policy  
27 from a position of strength.

28 (15) ANNUAL REPORT of Federated Co-operatives  
29 Limited, 1962, pp. 53-4.  
30





1 2.66 The Co-operative movement in the Prairie  
2 provinces is, therefore, a fully integrated, rapidly  
3 growing and powerful organization. It has access  
4 to all the financial means that it needs to grow  
5 rapidly. It has a large and growing body of trained  
6 managers. It has a body of customers whose loyalty  
7 is beyond question; and whose loyalty has brought  
8 them substantial economic returns. With these  
9 elements in its favour, it has a power and flexi-  
10 bility greater than that of any of its competitors.

11 2.67 Tax exemption is, of course, an additional  
12 help. The hope of sharing in profits provides a  
13 powerful incentive to trade with the co-operative.  
14 The retention of these enlarged profits for use as  
15 operating capital makes it possible to expand more  
16 rapidly than would otherwise be possible. These  
17 are no doubt valuable; but they are no longer ne-  
18 cessary to the existence or survival of the move-  
19 ment.

20 2.68 As recently as twenty years ago many business-  
21 men were willing to take their chances in competi-  
22 tion with co-operatives. They admitted the great-  
23 ness of the advantage conferred upon co-operatives  
24 by tax exemption, but they were at that time com-  
25 peting with individual locals. They felt that there  
26 were substantial off-sets. They could compensate  
27 for the tax advantage by greater efficiency in  
28 operation.

29 2.69 That attitude is now gone, and for good  
30 reasons, First of all, the calibre of management







1 at the local level has greatly improved. Secondly,  
2 capital is so freely available to the co-operatives  
3 that they can open new stores with a higher level  
4 of capital investment than any other business can  
5 support. Finally, the benefits of tax exemption  
6 permit the funnelling of profits at the manufactur-  
7 ing and the wholesaling levels into the retail co-  
8 operatives with only a minimal reduction therein  
9 due to taxes; and their competitors, on the other  
10 hand, buy at prices which include the tax burden.  
11 Unless justice is now done the co-operatives give  
12 promise of invading one field after another as and  
13 when they are ready for it. The cumulative effect  
14 of tax exemption gives them, in the end, an over-  
15 whelming advantage.

16 2.70 We do not presume to prove that the truly  
17 remarkable growth of co-operatives has been due to  
18 tax exemption alone. In fact it is not possible to  
19 prove that statement, or to disprove it. There are  
20 a number of factors which contribute to economic  
21 success of which the quality of management, the  
22 adequacy of supply and the cost of capital, the  
23 degree of customer loyalty, and the training and  
24 interest of staff come instantly to mind as the  
25 more prominent. Other factors would have to be  
26 added to that list to make it complete. There is  
27 only one measure of the result, namely the profits  
28 earned. If the problem of allocation of influence  
29 is to be solved there must be as many equations as  
30 there are unknowns. Even if it were possible to





1 quantify the casual variables it would still be  
2 impossible to find a solution for the problem.

3 2.71 One is therefore driven back to a test which  
4 would indicate the probability that the degree of  
5 profitability of consumer co-operatives and of  
6 other retail businesses is, or is not, the same.  
7 For this purpose, the best available comparison is  
8 between consumer co-operatives in Saskatchewan and  
9 the results of retail traders whose individual income  
10 returns are classified and the results of active  
11 taxable companies in retail trade for the whole of  
12 Canada as reported in TAXATION STATISTICS. (16)  
13 The most recent data for (roughly) the same period  
14 of time are for the year 1960. In that year 12  
15 consumer co-operatives in Saskatchewan showed losses  
16 out of a total of 39 which operated during the  
17 year, or 3.44 per cent. (17) A total of 128,336  
18 "retail traders" made personal income tax returns,  
19 and 40,563 of them showed losses on the year's  
20 operations or 31.61 per cent. Similarly 16,239  
21 active companies in retail trade made returns, out  
22 of which 5,420 made losses or 31.61 per cent.

23  
24 (16) (Ottawa: The Queen's Printer, Annual).  
25 See for example, in the 1962 issue, Section II,  
26 Table 3, p. 40ff. at p. 43 and Section III, Table  
27 2, p. 112ff., at pp. 113-114.

28 (17) CO-OPERATIVE ASSOCIATION SERVICES,  
29 1960 (Regina: The Queen's Printer, 1961),  
30 pp. 28-34.





1 2.72 The question may then be put ... do these  
2 three results come out of one basic retail trading  
3 population with common characteristics or is there  
4 a fundamental difference between them? The answer  
5 is that the individual and the corporate retail  
6 traders probably do belong in the same population; (18)  
7 but the difference between the results of the co-  
8 operatives and either group of non-co-operative  
9 retail traders is so large as to make that proba-  
10 bility unimaginably minute. The difference between  
11 the co-operative percentage of loss operations and  
12 that of the non-co-operative businesses when stated  
13 in units of standard error is 115 and 113 respec-  
14 tively. Three units of standard error means that  
15 there are only 27 chances in 10,000 of so large a  
16 value being found by chance. Six units of standard  
17 error can appear by chance 52 times out of 10  
18 million times (that is, 52 divided by 10 to the  
19 thirteenth power). No table of values bothers to  
20 go beyond that limit.

21 2.73 One may therefore conclude that one of two  
22 things is possible. It may be that the co-operative  
23 type of retail organization is so much more effi-  
24 cient than its non-co-operative competitors that it  
25 doesn't need any special tax exemption. Alterna-  
26 tively one may postulate that the co-operative and

27  
28 (18) There is about one chance in 4 that the  
29 difference between these percentages would be met  
30 with, due to chance alone.







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1 the non-co-operative types of organization are of  
2 an equal basic efficiency but that the cumulative  
3 effect of almost complete exemption from the cor-  
4 porate income tax confers a paralyzing superiority  
5 in the former so that in the end, none but co-opera-  
6 tive retail corporations will survive. Either  
7 hypothesis would be consistent with the facts. But  
8 the differences between the two types of organiza-  
9 tion under existing law and regulations is so great  
10 that they cannot conceivably be regarded as falling  
11 within the same statistical population.  
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PART III

THE RELATIVE GROWTH OF CO-OPERATIVES AND  
THE RESULTING LOSS OF TAX REVENUE

3.1 The preceding section has shown that co-operatives have grown very rapidly in the last 25 years in average size, and especially in the amount of assets owned and controlled. They have their lines out to acquire capital and, in all probability, they are now in a better position to finance rapid growth than are their competitors. Above all else, they are no longer small, weak, local organizations. They have powerful regional wholesale organizations which co-ordinate the actions of the retail outlets. These are already in full operation. They have gone through the tentative and exploratory stage. They are now capable of rapid, controlled, profitable expansion.

3.2 The third step is now in active development. Interprovincial Co-operatives Limited has begun to expand as a co-ordinator of the activities of these regional wholesale co-operatives. It will consolidate the orders from the regional wholesalers, and will use the great buying power so created to establish private brands in the standard commodities. Control of the "co-op" label is lodged with it, which insures its power to compel uniformity right across Canada.

3.3 Given this degree of development, it is inevitable that co-operatives should take over a





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growing share of total retail distribution. On a national basis, that share has grown over six-fold since 1934, that is from 0.37 per cent to 2.33 per cent at 1961. This is at an average rate of increase of 7.1 per cent per year IN THE RELATIVE SHARE OF THE MARKET. Were that trend to be continued over the next 30 years, co-operatives would expand their share of the market nearly eight-fold and would then control over 18 per cent of the total retail trade of Canada.

3.4 It is of course not necessary to point out that, when the national average is 18 per cent, private business will have been practically excluded from most rural areas and will be able to exist only in urban areas where there are a great many distributors.

3.5 Graph VII shows co-operative retail sales as a percentage of total retail sales for Canada and for Saskatchewan (1) in order to demonstrate that while considerable emphasis has been placed above on the experience in Saskatchewan because of the amount of information available with respect to co-operatives in that province, it is reasonably represen-

---

(1) For co-operative sales, see Tables 1 and 2 in Appendix I hereto. For estimates of aggregate retail sales, see D.B.S., RETAIL SALES, 1960 (Ottawa: The Queen's Printer 1962), Table 1 and for 1961 data see D.B.S. CANADIAN STATISTICAL REVIEW, April 1963, Table 76.





1 tative of the development in the country as a whole.  
2 Co-operatives have a bigger share of the market in  
3 Saskatchewan. The growth in the share of the market  
4 in the last ten years has also been a bit stronger.  
5 But these are, in the end, minor differences. In  
6 both, Saskatchewan and in Canada as a whole, the  
7 trend is strongly upward.

8 3.6 It is not possible to show exactly how much  
9 income tax co-operatives have been able to avoid  
10 by reason of the exemptions currently granted them;  
11 but it is possible to bring forward enough evidence  
12 to establish its general order of magnitude.

13 3.7 First of all, with respect to Federated Co-  
14 operatives Limited, the income tax liability as com-  
15 puted by the Company is known for the four years  
16 1958-59 and 1961-62. The comparison is as follows:

Year	Balance Available for Income Tax \$ 000 omitted	Estimated Income Tax \$ 000 omitted	Column II as a Percentage of Column I
1958	3232	80	2.48
1959	4300	100	2.33
1960	--	--	--
1961	3451	141	4.09
1962	3036	140	4.61

26 3.8 If, therefore, one assumes a charge of 5 per  
27 cent of taxable income as the income tax in the  
28 years for which the net after taxes only is known,  
29 one is more likely to overstate than to understate  
30 the amount of tax actually paid. That is done in







1 Table 7. Even if that table contains substantial  
2 understatements of the amount of tax actually paid  
3 and an overstatement of the "normal" tax, the gap  
4 between the two amounts is so large as to give any-  
5 one pause. The gap shown in the table of  
6 \$10,784,000 is just about half the net worth of the  
7 company at October 31, 1962 namely \$20,873,000.

8 TABLE 7

9 3.9 Federated Co-operatives Limited: An Estimate  
10 of the Income Tax actually paid and of the Income  
11 Tax which would have been due from it had it been  
12 taxed as are other Corporations, 1955-1962.  
13 \$ 000 omitted.

14 SEE FOLLOWING PAGE FOR FIGURES

15 SOURCES: Column I - Annual Report of Federated Co-  
16 operatives Limited, 1962, p. 63.

17 Columns II and III see supra in text

18 a. In 1955-61 Federated Co-operatives  
19 Limited and Alberta Co-operatives  
20 Wholesale Association Limited were  
21 two separate companies and therefore  
22 were allowed a total of \$70,000 at the  
23 21 per cent rate.  
24  
25  
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30





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TENTATIVE ESTIMATES OF

Year	Reported Earnings Net After Payment of Income Tax	Income Tax Paid at 5% of Taxable Income	Taxable Income	"Normal" Tax at 21% on the first \$35,000 and at 52% on the excess
1955	1585	83	1668	846 a
1956	2114	111	2225	1135 a
1957	2145	113	2258	1152 a
1958	3271	172	3443	1169 a
1959	4328	228	4556	2347 a
1960	3690	194	3884	1998 a
1961	3310	174	3484	1790 a
1962	2896	152	3048	1574
Totals	23,339	1,227	24,566	12,011

Sources and notes on preceding page.





1 3.10 Federated Co-operatives Limited, had about  
2 42 per cent of all the co-operative wholesale sales  
3 in Canada (2) in 1961. It may be inferred, there-  
4 fore, that there is a substantial loss of income  
5 tax on co-operative wholesale operations in the  
6 other provinces as well as in Saskatchewan.

7 3.11 The local co-operative corporations have also  
8 earnings from their own operations, and again it  
9 will be easiest to show first what happens in  
10 Saskatchewan and then to use that as a base from  
11 which to discuss the nationwide importance of tax  
12 avoidance by retail co-operatives.

13  
14  
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16  
17  
18  
19 (2) This figure excludes the sales of farm  
20 products by the other co-operatives. See CO-  
21 OPERATION IN CANADA, 1961, Table 12. The respec-  
22 tive figures are \$82,094,000 for Federated Co-  
23 operatives and Alberta Co-operative Wholesale  
24 Association Limited combined and a grand total of  
25 \$196,285,000. At 1955 the corresponding percent-  
26 age was 46 per cent. See IBID. 1955, Table 15.





TABLE 8

LOCAL EARNINGS OF CONSUMER CO-OPERATIVES

IN SASKATCHEWAN - 1961

Year	Number of Co-ope- ra- tives	Aggregate Surplus or (Loss)	Less other Income \$ 000 omitted	Balance being almost entirely the local earnings
1955	409	2921.0	1509.7	1411.3
1956	389	3277.5	1760.7	1516.8
1957	381	3344.1	1921.6	1422.5
1958	373	4604.5	2650.3	1954.2
1959	359	5648.8	3455.2	2193.6
1960	348	5438.4	2951.1	2487.3
1961	325	4077.2	2680.9	1396.3
Total		\$29,311.5	\$16,929.6	\$12,384.0

SOURCE: REPORT of the Saskatchewan Department of Co-operation and Co-operative Development 1956 p. C.A. 68; and supplements thereto entitled CO-OPERATIVE ASSOCIATION SERVICES, 1956, Tables 5 and 7; IBID, 1957, Tables 5 and 7; IBID, 1958, Tables 5 and 7; IBID, 1959, Table 5; IBID, 1960, Table 5; IBID, 1961, Table 3.

3.12 Table 8 is in many ways unsatisfactory except as providing a very general indication of the amounts of money involved. Column I the aggregate "surplus or loss" is the amount available for division between the members after the payment of income tax. Column II is a net figure. It shows income other than operating income - patronage







1 refunds, commissions earned on tax collections,  
2 interest, rentals, participation in the profits of  
3 concessions to run stores within the co-operative  
4 building and so on - less interest and other charges.  
5 Column III which is the difference between the two  
6 is therefore a rough approximation to a figure of  
7 local operating earnings net after income tax has  
8 been paid.

9 3.13 Since co-operative retail sales in Saskatche-  
10 wan in 1961 were only 21 per cent of the national  
11 total of \$388 million, one is entitled to say that  
12 the amount of income escaping taxation at the retail  
13 level is probably very substantial also.

14 3.14 How much tax is paid by retail co-operatives  
15 is not published in any of the public sources known  
16 to us. However, over the past months we have made  
17 a collection of the reports of local co-operatives  
18 and have succeeded in getting those for 16 which  
19 show the amount of income tax provided in respect of  
20 the 1962 financial year - 3 in Manitoba, 12 in  
21 Saskatchewan, and 2 in Alberta. (3) Other reports

22  
23 (3) Their short titles and the name of the  
24 town where that is not in the title are: - Manitoba:  
25 North of 53 (Flin Flon), Portage la Prairie and  
26 Roblin; Saskatchewan: Assiniboia, Biggar, Eastend,  
27 Kinistino, Lafleche, Nokomis, Punnichy, Radville,  
28 Weyburn, Whitewood and North Battleford; and in  
29 Alberta: Eckville and Legal. The financial years of  
30 15 ended on December 31, 1962 or January 31, 1963.





for the same financial year were available but since they did not show any provision for income tax on 1962 income they had to be excluded.

3.15 These 16 co-operatives showed aggregate operating income of \$416,259, aggregate net income of \$386,975 and income tax provided on 1962 income \$25,016. This comes to 6.01 per cent of operating income, or 4.26 per cent of net income. The individual percentages are shown in Table 9.

TABLE 9

INCOME TAX PAID OR PROVIDED IN RESPECT OF 1962 INCOME BY 16 CONSUMER CO-OPERATIVES AS A PERCENTAGE OF THE RESPECTIVE OPERATING INCOMES AND NET INCOMES

AS A PERCENTAGE OF		
Per cent	Operating Income	Net Income
0 to 0.9	0	1
1.0 to 1.9	3	3
2.0 to 2.9	3	7
3.0 to 3.9	3	3
4.0 to 4.9	4	1
5.0 to 5.9	1	0
6.0 to 6.9	1	1
7.0 and up	1 a	0

a. 28.0% in the case of North of 53 Consumers Co-operative Limited (Flin Flon). There is no obvious reason for this great departure from the median figure.

Note (3) - con't - The other was on February 28, 1963





1 3.16 Looking at that table one begins to understand  
2 why a substantial number of co-operatives make no  
3 attempt to estimate their income tax liability in  
4 presenting the year's accounts. They merely report  
5 the whole income as available for distribution and  
6 then charge income tax, when finally paid, against  
7 general reserve. (4)

8 3.17 Canadians are in the process of learning to  
9 live in a social service state. We suggest that its  
10 full implications are not yet clear to most citizens.  
11 They can see clearly that heavy social welfare  
12 transfer payments mean more spendable income for  
13 the recipients. They are not yet fully seized of  
14 the fact that such payments weaken the connection  
15 between intelligent effort in the service of the  
16 community and the money reward for it. Yet it is  
17 the dynamic tension of reward keyed to useful ser-  
18 vice to society which makes a great exchange society  
19 possible without compulsion.

20  
21 (4) See, for example, the report of Brandon  
22 Consumer Co-operative Limited which shows the whole  
23 of its net income as carried to surplus with the  
24 words "Net income from exhibit A - subject to pro-  
25 vision for income tax, general reserve; available for  
26 refund to members as 100% share capital". Income tax  
27 payments of \$405 (probably in respect of the 1961  
28 year) are charged to general reserve, and are a  
29 negligible amount in relation to 1961 earnings  
30 or to the reserve.





1 3.18 If this system of transfer payment is to be  
2 kept consistent with society's long run interests,  
3 then the greatest care must be taken to apply the  
4 inevitably heavy taxes uniformly over the whole  
5 population. Unless that is done the manner in which  
6 taxes are collected becomes a form which constantly  
7 inhibits intelligent productive effort.

8 3.19 That is the situation which we who compete  
9 with co-operatives now face. We must pay income  
10 taxes from which they are almost totally excused.  
11 We find them able to hire away from us workers whom  
12 we have trained. We lose business because we do not  
13 also pay patronage dividends. We pay taxes out of  
14 which the state is able to make transfer payments  
15 to all citizens, members of co-operatives as well  
16 as others; but our competitors the co-operatives  
17 are enabled to distribute their profits, substan-  
18 tially untaxed, directly to their members.

19 3.20 Why should they not grow and we diminish when  
20 they are able to appeal so directly to self-interest?

21 3.21 The exemption of co-operative patronage divi-  
22 dends is a preposterous stupidity. Were one to plan  
23 how to bring good citizenship into contempt this  
24 situation would be left exactly as it now is.

---







## APPENDIX I

The purpose of this appendix is to bring together in one place the statistics which have been shown graphically in the text, and to explain those which are the result of further computation based on the original sources.

### TABLE 1

This table is perfectly straightforward. It merely transcribes the data from the original sources noted. It is the basis of Graph I.

### TABLE 2

This table is similarly a collection merely of data regularly published in the ANNUAL REPORT of the Department of Co-operation and Co-operative Development of Saskatchewan on the supplements thereto. Totals only are shown in and after 195 .

### TABLE 3

This table also gathers together data, all of which appears in the ANNUAL REPORT of the Saskatchewan Department of Co-operation and Co-operative Development.

### TABLE 4

This table is produced by dividing, in each year, the number of co-operatives (Table 3, Column 1) into aggregate sales (Table 2), total number of members (Table 3, column 2) and aggregate members' equity (Table 3, column 3).

### TABLE 5

This table is based on the listings in the DIRECTORY OF CO-OPERATIVE ASSOCIATIONS, 1954 (Ottawa: The Queen's Printer, 1956), and IBID., 1961 (Ottawa:





Department of Agriculture, 1962, mimeo). This source lists each co-operative, classified by province. The type of business done is indicated by a symbol and the volume of business by ten numbered classes, as follows:

Class	limits, \$
1	to 24,999
2	25,000 to 49,999
3	50,000 to 99,999
4	100,000 to 199,999
5	200,000 to 299,999
6	300,000 to 399,999
7	400,000 to 499,999
8	500,000 to 999,999
9	1,000,000 to 9,999,999
10	10,000,000 and over

With such data available it was a matter of mere persistence to make frequency distributions of the consumer co-operatives in each province, classified by volume of sales; and then to sum these distributions to get one distribution for the three Prairie Provinces. The next step was to multiply the individual frequencies by the average of the class means and then to sum the products. The procedure is illustrated from the computation for the year 1961.





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# ESTIMATED VOLUME OF SALES OF CONSUMER CO-OPERATIVES IN THE PRAIRIE PROVINCES - 1961

Size Class	Number of co-operatives	Estimated Class Mean	Estimated aggregate sales \$000 omitted	Cumulative distribution of Numbers	Aggregate Sales
1	40	20,000	800.0	7.5	0.4
2	52	35,355	1,837.4	17.2	1.4
3	122	70,711	8,626.7	39.9	6.1
4	164	141,420	23,192.9	70.5	18.6
5	65	244,950	17,001.8	82.6	27.3
6	28	346,410	9,699.5	87.9	32.5
7	17	477,210	7,602.6	91.0	36.6
8	27	707,110	19,092.0	96.1	47.0
9	21	3,162,300	98,031.6	100.0	100.0
10	0	.....	.....	...	....
11	536		184,804.5	100.0	100.0





Three assumptions with respect to this table should be noted.

First of all, it is arbitrarily assumed that the mean of class 1 was \$20,000 per co-operative rather than the mean of the class limits. Secondly, the estimated mean of classes 2-9 inclusive is the geometric and not the arithmetic mean of the class limits. This has a relatively minor effect when the class is narrow, as for example in class 2 where the mean used is \$35,355 whereas the arithmetic mean is \$37,500; but it has maximum effect in class 9 where the geometric mean is \$3,162,300 whereas the arithmetic mean is \$5,500,000. Finally the U.F.A. Co-operative Association Limited of Calgary fell in class 10 (over \$10 million) but it was omitted because it had 164 branches and is therefore not to be compared with the other co-operatives which are organized on a local (1) and not on a provincial basis. The net effect of all three adjustments is toward an understatement rather than an overstatement of the degree of concentration.

The computation for the year 1954 was, of course, carried through in the same manner.

(1) One of the consequences of the widespread mergers of co-operatives in the last ten years is, of course, a movement toward the development of multiple unit co-operatives blanketing a trade territory and away from co-operatives which have one main store only.







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1 TABLE 6

2 This table also merely gathers together in  
3 one place what is available carried back to 1928 in the  
4 source noted. Sales in that year were \$130,000.

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Table 1

TOTAL SALES OF CONSUMER CO-OPERATIVES  
IN CANADA, 1932-1961

Year	Sales \$000,000 omitted
1932	10.7
33	8.8
34	7.4
35	9.2
36	12.8
37	16.4
38	20.1
39	20.4
40	21.1
41	24.9
42	42.3
43	55.7
44	65.5
45	81.4
46	95.6
47	127.0
48	157.9
49	191.8
50	266.1
51	210.0
52	234.8
53	245.6
54	234.6
55	228.4
56	258.8
57	283.7
58	296.7
59	332.9
60	365.7
61	388.0

SOURCE: Economics Division, Department of Agriculture, Co-operations in Canada, 1950 (Ottawa: mimeo, 1951) Table 4 and *Ibid.*, 1961 (Ottawa, 1962), Table 2. These are the co-operatives engaged in retail trade.



**Table 2**  
**SALES OF CONSUMER CO-OPERATIVES**  
**IN SASKATCHEWAN, 1937-1961**  
**MILLIONS OF DOLLARS**

Year	Handling bulk commodities and farm supplies	Operating stores	TOTAL
1937	1.3	1.8	3.1
38	2.0	1.9	3.9
39	2.6	2.1	4.7
40	4.5	2.6	7.1
41	4.7	3.9	8.6
42	5.9	5.4	11.2
43	6.1	6.9	13.1
44	5.5	11.0	16.5
45	4.7	13.8	18.6
46	5.7	16.8	22.4
47	7.0	18.7	25.7
48	7.3	21.9	29.2
49	7.1	24.8	31.8
50	7.7	27.9	35.6
51	8.6	31.3	39.9
52	10.1	36.6	46.7
53	10.9	42.7	53.6
54	11.3	42.2	53.4
55	12.4	44.6	57.0
56	13.0	48.5	61.5
57	13.8	51.4	65.2
58	14.7	55.5	70.2
59			76.3
60	- not reported -		83.2
61			84.7

SOURCE: Reports of the Department of Co-operation and Co-operative Development of the Province of Saskatchewan. For the years 1937-44 inclusive, *ibid.*, 1945 pp. 55, 57 and 59; for the years 1940-47 inclusive, *ibid.*, 1948 pp. 23-25; for the years 1944-51 inclusive, *ibid.*, 1952 pp. 28-32; for the years 1951-58 inclusive, supplement to the 15th Report, "Co-operative Association Services" pp. 22, 23, and 45; for the years 1954-61 inclusive, Report, 1962, p. 41.



Table 3

NUMBER OF CONSUMER CO-OPERATIVES IN SASKATCHEWAN,  
 THEIR TOTAL NUMBER OF MEMBERS AND AGGREGATE  
 MEMBERS' EQUITY, 1937-1961

Year	Number of Co-operatives	Members 000 omitted	Aggregate Members' equity \$ 000 omitted
1937	283	20.3	
38	306	23.2	1.162
39	327	28.6	1.246
40	453	42.5	1.805
41	483	50.9	2.489
42	489	57.9	3.050
43	486	66.3	3.587
44	483	76.7	4.173
45	519	121.5	6.833
46	525	128.4	8.174
47	522	139.0	9.733
48	514	114.6	10.270
49	516	121.2	10.895
50	503	121.9	11.816
51	481	130.0	13.715
52	452	133.3	16.785
53	426	144.2	20.135
54	416	160.3	21.501
55	409	168.0	23.190
56	389	176.2	25.051
57	381	184.3	26.670
58	373	191.3	29.972
59	359	199.6	32.829
60	348	211.2	35.409
61	325	222.0	36.705

Source: Annual Reports of the Department of Co-operation and Co-operative Development; as shown in Table 2.





Table 4

AVERAGE SALES, MEMBERS' EQUITY AND NUMBER OF  
MEMBERS PER CONSUMER CO-OPERATIVE IN  
SASKATCHEWAN, 1937-1961

Year	Average Sales \$ 000 omitted	Average Number of Members	Average Members' equity \$ 000 omitted
1937	11.0	72	
38	12.8	76	3.8
39	14.3	87	3.8
40	15.6	94	4.0
41	17.8	105	5.2
42	23.0	119	6.2
43	26.9	137	7.4
44	34.3	159	8.6
45	35.8	234	13.2
46	42.8	245	15.6
47	49.2	266	18.6
48	56.8	223	20.0
49	61.7	235	21.1
50	70.9	242	23.5
51	83.0	270	28.5
52	103.3	295	37.1
53	125.7	338	47.3
54	128.4	385	51.7
55	139.3	411	56.7
56	158.1	453	64.4
57	171.1	487	70.0
58	188.2	518	80.4
59	212.6	556	91.4
60	239.1	607	101.7
61	260.7	683	112.9

Computed from Tables 2 and 3.



Table 5

CUMULATIVE PERCENTAGE DISTRIBUTIONS OF  
NUMBERS OF CO-OPERATIVES AND OF THEIR AGGREGATE  
SALES IN THE THREE PRAIRIE PROVINCES, 1954 AND 1961

Size Class	1961		1954	
	Number of Co-operatives	Aggregate Sales	Number of Co-operatives	Aggregate Sales
1	18.5	2.6	7.5	0.4
2	33.5	6.2	17.2	1.4
3	62.5	20.4	30.9	6.1
4	86.6	43.9	70.5	18.6
5	93.6	55.8	83.6	27.3
6	95.9	61.4	87.9	32.5
7	97.2	66.2	91.0	36.6
8	98.8	72.8	96.1	47.0
9	100.0	100.0	100.0	100.0
10	100.0	100.0	100.0	100.0

Source: Computed from data in Economic Division, Department of Agriculture, *Directory of Co-operative Associations*, 1954 (Ottawa: The Queen's Printer, 1956) and *ibid.*, 1962 (Ottawa: 1962, mimeo).



Table 6

SALES, BY PROVINCES, OF FEDERATED CO-OPERATIVES  
LIMITED AND ITS PREDECESSOR CORPORATIONS,  
1937-1962 \$,000 OMITTED

Year	Manitoba	Saskatchewan	Alberta	Total
1937	397	914		1,351
38	481	1,380		1,911
39	615	2,037		2,711
40	778	3,193		4,100
41	990	3,905		5,139
42	1,354	5,123		6,006
43	1,544	6,007		7,770
44	2,068	5,661		8,041
45	2,244	7,185		9,830
46	2,952	9,361		12,838
47	3,694	11,319		15,615
48	4,478	13,287		18,533
49	4,872	14,794		21,034
50	5,095	17,032		24,049
51	5,710	19,161	2,311	27,182
52	6,361	23,308		32,549
53	7,246	27,978		40,029
54	7,635	31,625	3,004	44,686
55	7,156	33,538		47,551
56	6,029	40,022		53,817
57	7,464	42,767	4,733	56,963
58	8,802	45,252	6,216	61,643
59	10,840	50,718	6,956	69,849
60	18,882	48,428		76,456
61	22,019	49,922		82,094
62	23,062	57,304	14,460	94,826

SOURCE: Columns I and II

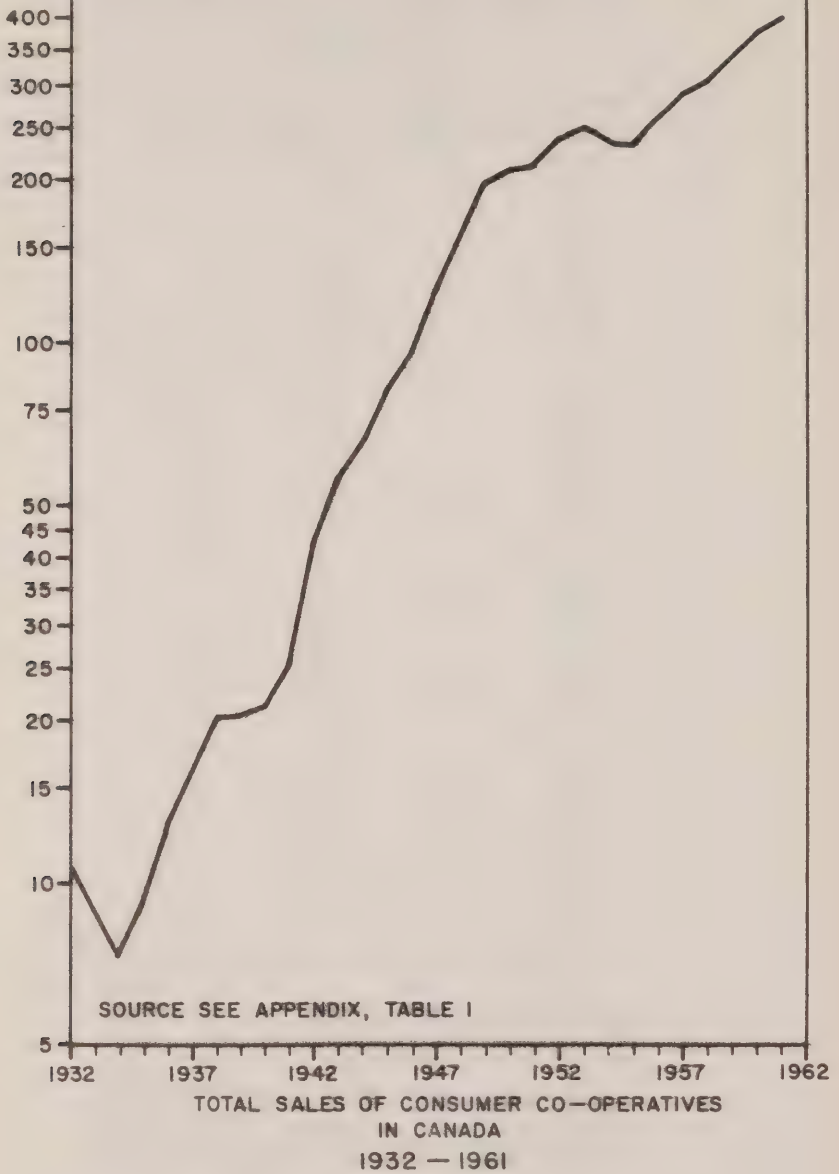
1937-1953 inclusive, Report of Federated Co-operatives Limited, 1955, p. 8.  
1954-1962, letter of the Department of Co-operation and Co-operative  
Development of Saskatchewan, dated May 1, 1963 as quoted in the *Brief*  
to this Commission by the Retail Merchants Association of Canada  
(Ontario) Inc., p. 23.

Column IV *Annual Report of Federated Co-operatives Limited*, 1962, p. 63.  
Column III, 1951, 1954 and 1957-59, from *Ibid.*, 1959, p. 11. For 1962, from  
the letter of May 1, 1963 noted above. An attempt was made to find the  
values for other years by subtracting the totals of columns I and II from  
column 4. This gave consistent results in 1951 and 1962 but not in 1957-59.  
It was therefore abandoned.



GRAPH 1

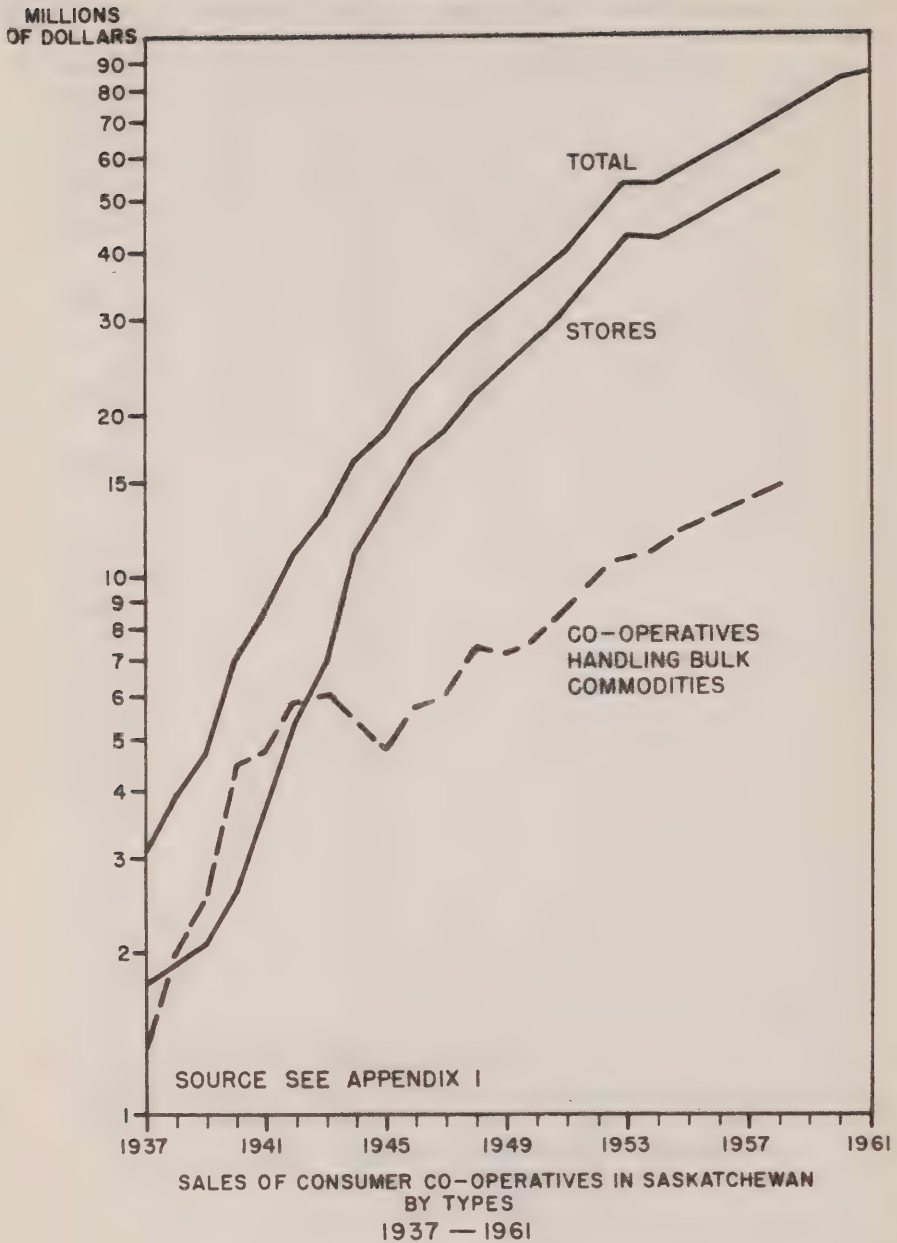
MILLIONS  
OF DOLLARS





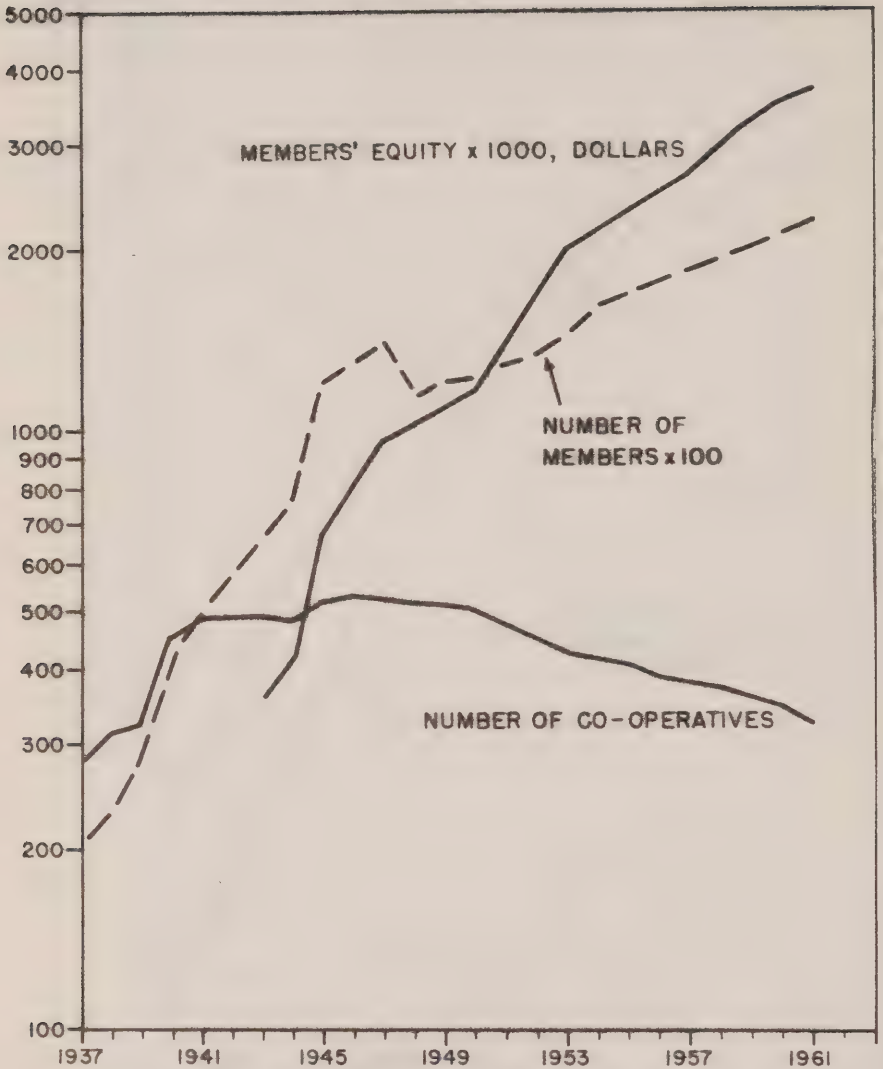


GRAPH II





GRAPH III

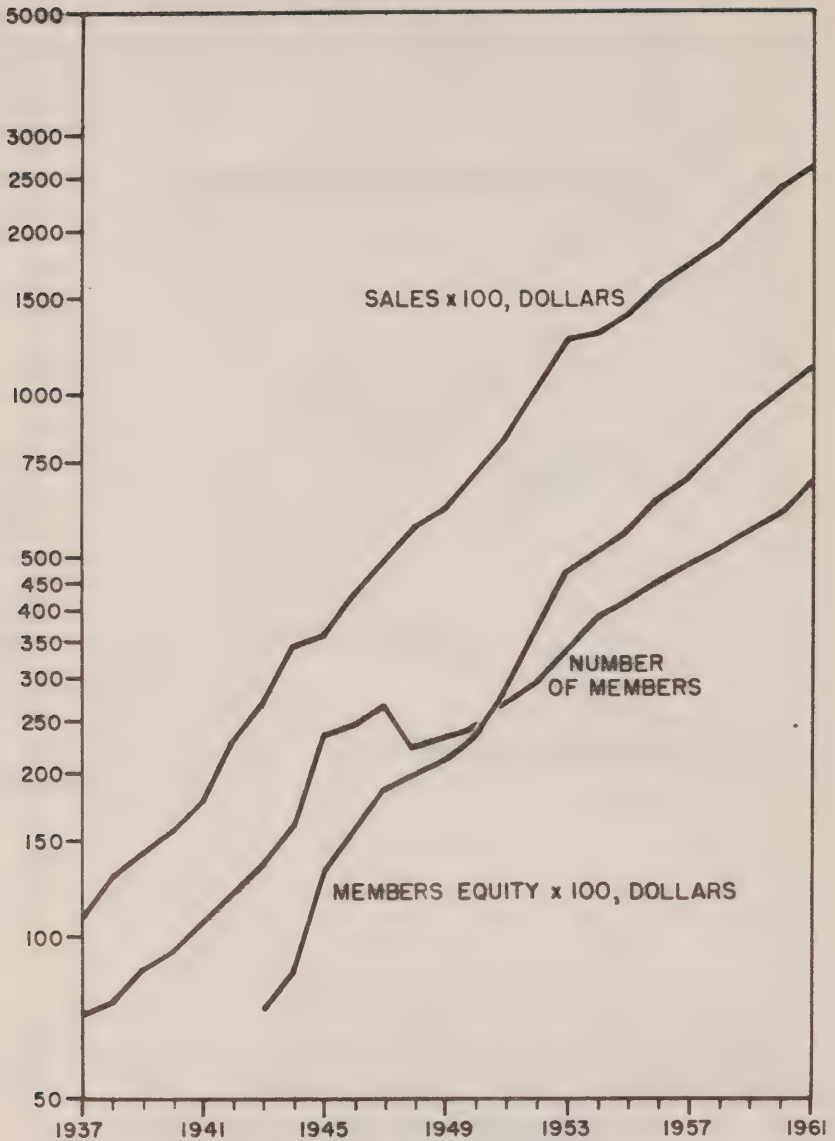


NUMBER OF CONSUMER CO-OPERATIVES IN  
SASKATCHEWAN, THEIR TOTAL NUMBER OF  
MEMBERS AND AGGREGATE MEMBERS' EQUITY

1937 — 1961



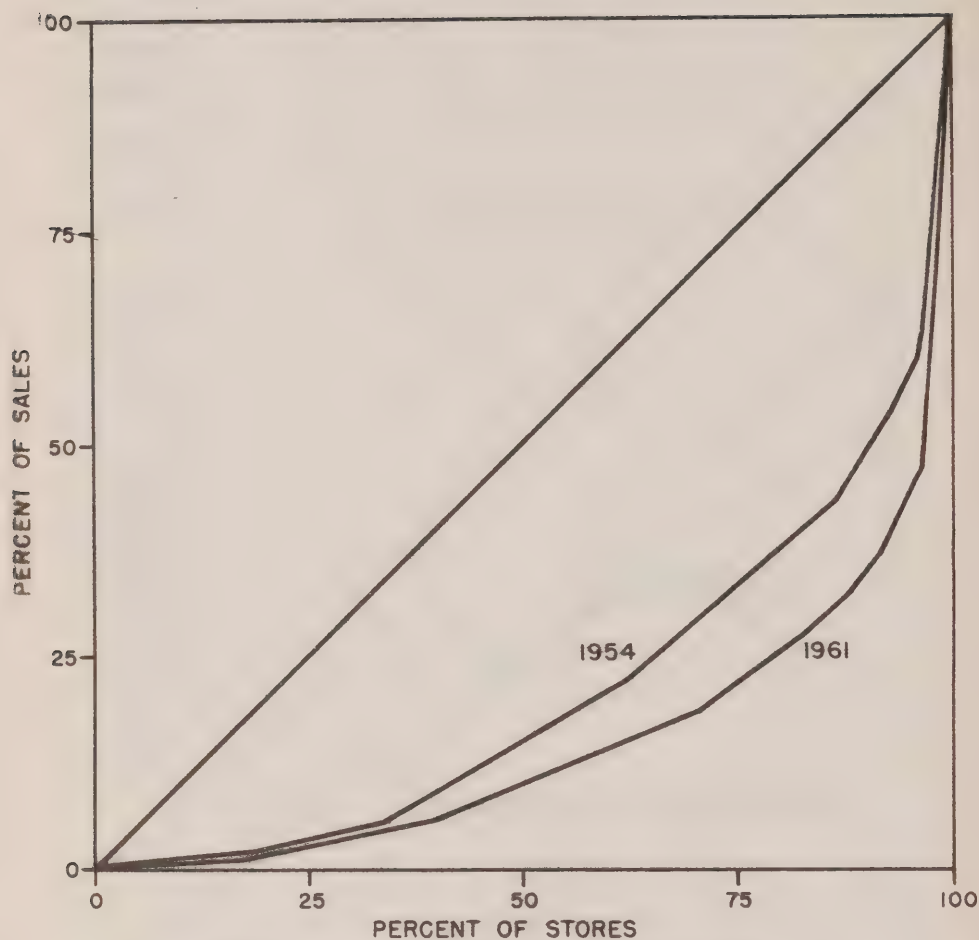
GRAPH IV



AVERAGE SALES, MEMBERS EQUITY AND NUMBER  
OF MEMBERS PER CONSUMER CO-OPERATIVE IN  
SASKATCHEWAN  
1937 — 1961



# GRAPH V



LORENZ CURVE SHOWING THE CONCENTRATION OF  
CO-OPERATIVE RETAIL SALES IN THE LARGER STORES:  
PRAIRIE PROVINCES

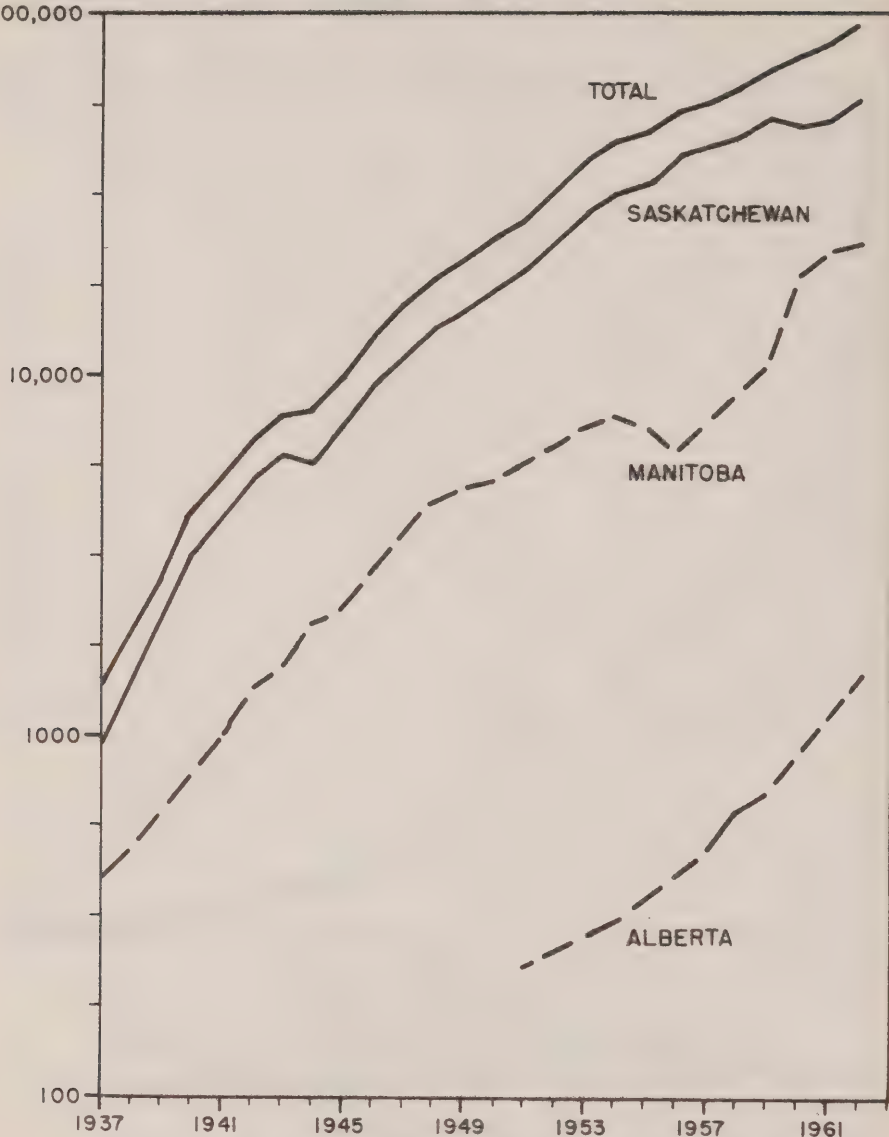
1954 - 1961





THOUSANDS  
OF DOLLARS  
100,000

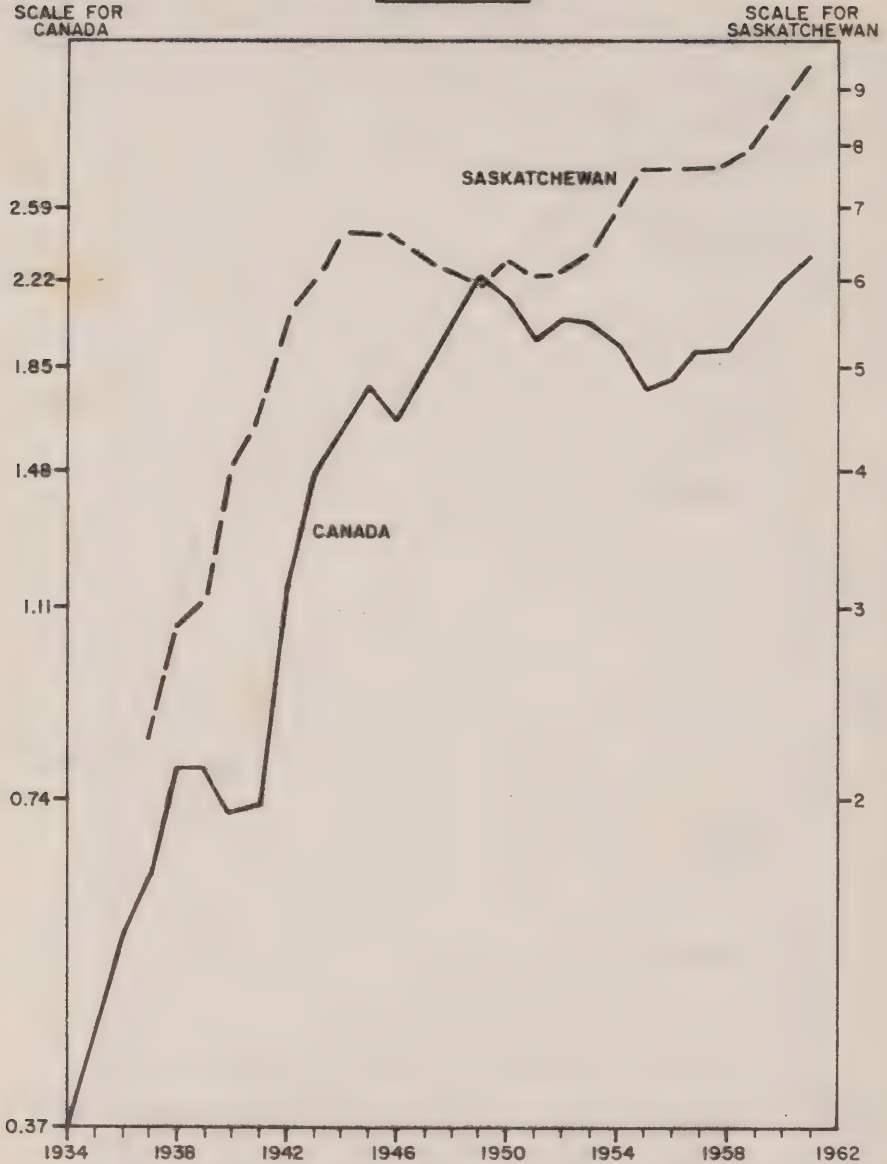
# GRAPH VI



SALES, BY PROVINCES, OF FEDERATED CO-OPERATIVES  
LIMITED AND OF ITS PREDECESSOR CORPORATIONS  
1937 - 1962



GRAPH VII



RETAIL SALES OF CONSUMER CO-OPERATIVES IN CANADA AND  
IN SASKATCHEWAN AS A PERCENTAGE OF THE RESPECTIVE  
AGGREGATES OF RETAIL SALES

1934 — 1961



1 REPRESENTATION SUBMITTED BY:

2 R. S. ROBINSON, B.Comm., LL.B., C.A.

3  
4 MEMORANDUM TO THE ROYAL COMMISSION ON  
5 TAXATION CONCERNING THE TREATMENT OF  
6 PROFESSIONAL MEN UNDER EXISTING INCOME  
7 TAXATION JURISPRUDENCE.

8  
9 CONCLUSIONS

10 1. The professional man in Canada today receives  
11 grossly inequitable treatment at the hands of our income  
12 taxation laws.

13 2. This inequitable treatment cannot have a  
14 favourable effect upon incentive.

15 RECOMMENDATIONS

16  
17 1. Professional men, eg, doctors, lawyers, char-  
18 tered accountants, architects, dentists, etc, be allowed  
19 to incorporate for purposes of income taxation.

20 2. The Income Tax Act be amended to allow pro-  
21 fessional men throughout Canada to report their annual  
22 professional income as a corporation, just as ordinary  
23 corporations now do.

24 3. In the event that provinces objected to this  
25 procedure, the result might be achieved by allowing  
26 the professional man to obtain a federal charter and to  
27 report his professional income through a federal limited  
28 company. For purposes other than income taxation, the  
29 provinces need not recognize the federal charger, if they  
30 wish.







1. The professional man in Canada today cannot incorporate for income taxation purposes because of the English common law of hundreds of years ago. At that time, in England, there existed a need for such a law. Today, in Canada, no such need exists. The result of this carry over of English common law into judicial system is that the Canadian professional man is subject to extreme discrimination by our taxation laws. It is grossly inequitable that while almost every taxpayer in Canada can incorporate himself if he wishes, the professional man cannot.

2. In addition, the more successful the professional man becomes, the greater the inequity he receives at the hands of our tax laws, because of the graduated rates of income tax. Where a limited company earns \$35,000.00, it will pay a tax of \$7,350.00. A professional single man who earns the same will pay a tax of \$13,110.00, or almost double what the corporation pays. A professional man cannot provide for himself the same measure of tax relief which he provides for his client. The effect of this law upon incentive will vary with each individual, but it seems reasonably certain that it does not increase incentive.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

R. S. ROBINSON  
Barrister, Solicitor and  
Chartered Accountant  
Winnipeg, Manitoba.



112 rue St. Pierre,  
St. Norbert, Manitoba.

February 26, 1963.

Mr. Ken Carter, Chairman,  
Royal Commission on Federal Taxation,  
Legislative Bldg.,  
OTTAWA.

Dear Sir;

I would ask you to consider the following  
three points in connection with tax legislation.

1 - Entertainment Allowance

As a protagonist of the Capitalistic system

I would like to see the allowance for

entertainment abolished in its entirety

and not just regulated or controlled.

This qualification is added because I feel

that regulation is not called for in this

case, i.e. I know of no exceptions or

extenuations, and because, as you know

regulations and controls are to be avoided

in preference to clear mandates wherever

possible. In fact it can often be

demonstrated that no law is preferable

to an ambiguous law, which serves only to

provide the grounds for litigation.

I believe this allowance should be abolished

because it benefits no one (except the night

club operators) but on the other hand, this

special privilege legislation does make a

negative contribution to the ethics of business.









1 For... For example it is not uncommon for business  
2 executives and officers to be rewarded for  
3 their efforts with an abnormally generous  
4 expense account in lieu of salary, and for  
5 corporations to use this slush fund for  
6 other evil or unsatisfactory uses such as  
7 bribing prospective customers or other  
8 authorities who are in a position to reward  
9 such generosity.

10  
11 In short, since this special privilege does  
12 no one but the recipient any good----which  
13 benefit he could better obtain through  
14 other channels such as a pay increase in  
15 the case of an employee, or a reduction  
16 in commodity prices in the case of a  
17 customer----and since it can be shown to  
18 do much harm, then it would be well to abolish  
19 it in its entirety.

20 2. Display Advertising

21 At the outset it is necessary to distinguish  
22 clearly between two classes of advertising.

23 A- Display advertising whose purpose is not to  
24 inform but to brainwash, and uses the  
25 appropriate techniques of noise, repetition,  
26 size, color, sex etc. as typified by all  
27 cigarette and liquor ads, and most automobile  
28 advertising. It is familiar to all as  
29 the full page ad, the radio spot, and I  
30 believe needs no further definition.





2- Display Advertising

B- Informative advertising whose purpose is to inform and therefore lists such statistics as price, color, size range, weight etc. and is typified by the catalogue or want ad section of the paper, and similar presentations.

The first type of advertising is not needed, nor desirable, whereas informative advertising is both.

Therefore, I would propose that--"the cost of display advertising be disallowed as a legitimate cost of doing business by the tax department."--

In view of the fact that half the cost of such advertising is passed on to the customer, and so he must pay for his own brain washing, and the other half is paid for by the tax department by way of allowance deduction, I find the present legislation iniquitous.

3- Patent Royalties

At present if a patent right is sold the gain is treated as capital and not taxed. However, if a settlement is made on a royalty basis, the annual gain is treated as income and is subject to tax. I cannot





3- Patent Royalties

see the logic in this distinction and  
1-agree with the capital gain concept, but  
2-disagree with the ruling that if the  
gain is taken piecemeal fashion through  
royalties that it should be treated as  
income, and would therefore recommend  
that this distinction be removed and  
the sale of patent rights be treated as  
a capital gain regardless of how payment  
is received.

Thank you for your expected courtesy in  
considering the merits of this submission,

Sincerely yours,

Professor Charles P. Bennett.

# ROYAL COMMISSION

ON

## TAXATION

### HEARINGS

HELD AT

WINNIPEG

MAN.

VOLUME No.:

DATE:

45A AUG. 27, 1963

BRIEF

OFFICIAL REPORTERS  
ANGUS, STONEHOUSE & CO., LTD.  
BOARD OF TRADE BLDG.  
11 ADELAIDE ST. W.  
TORONTO

364-5865 / 364-7383







ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

1  
2  
3  
4 A BRIEF

5  
6 to the

7  
8 ROYAL COMMISSION ON TAXATION

9  
10 from

11  
12 THE MANITOBA MEDICAL ASSOCIATION

13 (The Canadian Medical Association - Manitoba Divison)

14  
15 Incorporating a submission

16  
17 from

18  
19 THE COLLEGE OF PHYSICIANS AND SURGEONS OF MANITOBA

20  
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23  
24 FEBRUARY, 1963

25 WINNIPEG, MANITOBA  
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RECOMMENDATIONS

- 1
- 2 The Manitoba Medical Association recommends
- 3 that:
- 4 1. Post graduate refresher courses be declared income
- 5 tax deductible items.
- 6 2. In respect to medical care, tax funds be used to
- 7 assist only those individuals unable to pay the cost
- 8 of medical services.
- 9 3. The tax formula for calculating "medical expenses"
- 10 be changed to provide that the premium paid for
- 11 medical services and/or the amount expended by the
- 12 individual for medical services be used to compute
- 13 medical expenses in lieu of payments made on an
- 14 individual's behalf by contributory insurance plans.
- 15 4. The sales tax on prescription drugs be removed.
- 16 5. The tariff on appliances and prostheses not manu-
- 17 factured in Canada be removed.
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A BRIEF

FROM

MANITOBA MEDICAL ASSOCIATION

(Canadian Medical Association, Manitoba Division)

to

THE ROYAL COMMISSION ON TAXATION

1963

INTRODUCTION

1. Mr. Chairman and members of the Royal Commission on Taxation.

2. This is a submission to the Royal Commission on Taxation presented by the Manitoba Medical Association (Canadian Medical Association, Manitoba Division). The Association is a voluntary organization comprising 1,000 doctors representing 90% of the medical manpower in the province. Membership is available to any doctor registered by and in good standing with the College of Physicians and Surgeons of Manitoba. The Manitoba Medical Association was organized in 1908 but many years prior to this the predecessors of the present membership had established traditions of service and interest within the community. From its origin the Association has had these broad aims and objects:

(1) The promotion of health and the prevention of disease.

(2) The improvement of medical services however rendered so that they may be available to all people.

(3) The maintenance of the integrity and honour of the medical profession.





(4) The performance of such other lawful things  
as are incidental or conducive to the  
welfare of the public and of the medical  
and allied professions.

3. The profession in Manitoba has been a leader  
in the field of voluntary prepaid medical care and looks  
upon the doctor-sponsored Manitoba Medical Service as an  
example of the best among the comprehensive medical plans  
of its kind. It is by means of this plan that the  
profession is cooperating with the government in the  
provision of medical care for the needy. Presently in  
Manitoba the medical program for social welfare recipients  
and public funds for this service are administered by  
the Manitoba Medical Service.

4. The foregoing is presented to the Royal  
Commission in order to demonstrate that the medical  
profession of Manitoba has striven to achieve professional  
maturity, and meet its responsibilities both socially  
and technically. With this brief background, the Manitoba  
Medical Association wishes to advise the Commission it  
is honoured and happy to make this submission.

5. The College of Physicians and Surgeons of  
Manitoba has prepared a submission for the Royal  
Commission on Taxation which the Association is pleased  
to include in this brief -- APPENDIX A. The College is  
the legally incorporated body created by the Medical Act,  
and is responsible for the licensing of doctors in  
Manitoba.





1 TERM (f) "THE CHANGES THAT MAY BE MADE TO ACHIEVE  
2 GREATER CLARITY, SIMPLICITY AND EFFECTIVE-  
3 NESS IN THE TAX LAWS OR THEIR ADMINISTRATION."  
4 MEDICAL EDUCATION.

5 6. The Manitoba Medical Association endorses the  
6 attached submission of the College of Physicians and  
7 Surgeons of Manitoba -- APPENDIX A.

8 7. The Association is convinced that it is in the  
9 public interest for practising physicians to attend  
10 periodic, formal, refresher and post-graduate courses.  
11 It recommends that such courses given by a hospital,  
12 medical college, university or recognized scientific  
13 organization qualify for income tax deduction.

14  
15 TERM (b) "THE EFFECTS OF THE TAX SYSTEM ON EMPLOYMENT,  
16 LIVING STANDARDS, SAVINGS AND INVESTMENT.  
17 INDUSTRIAL PRODUCTIVITY, AND ECONOMIC  
18 STABILITY AND GROWTH."  
19 USE OF TAX FUNDS IN MEDICAL CARE.

20 8. The Canadian Medical Association believes that:

21 "The highest standard of medical services should be  
22 available to every resident in Canada.

23 "Insurance to prepay the costs of medical services should  
24 be available to all, regardless of age, state of health  
25 or financial status.

26 "Certain individuals require assistance to pay medical  
27 services insurance costs.

28 "The efforts of organized medicine, governments and all  
29 other interested bodies should be co-ordinated towards  
30 these ends. While there are certain aspects of medical  
services in which tax-supported programs are necessary,





1 a tax-supported comprehensive program compulsory for all,  
2 is neither necessary nor desirable."

3 9. The Association strongly urges that available  
4 funds for the provision of comprehensive medical services  
5 insurance be directed to those who require help rather  
6 than using such funds for persons who are financially  
7 able to look after themselves.

8 10. A method illustrating how tax funds may be used  
9 in health care was developed at the request of the  
10 Association in 1960 by Clarence L. Barber, Professor of  
11 Economics and Sociology, University of Manitoba --  
12 (APPENDIX B).

13 11. Dr. Barber reached the following conclusions:

14 "These data suggest that individuals and  
15 families in urban areas of Manitoba whose income are  
16 below the following levels, require some subsidization in  
17 meeting the costs of comprehensive medical care, eg.

18	1 Adult	-	\$1,400
19	2 Adults	-	2,000
20	2 Adults & 2 Children	-	2,800
21	2 Adults & 5 Children	-	3,700

22  
23 "Since living costs in rural areas and smaller  
24 towns are usually lower than in larger urban centres,  
25 any plan of subsidy which is based on the above scale  
26 of incomes would also adequately cover the needs of  
27 people who live outside the larger urban centres."

28 12. Under the plan which is proposed, maximum  
29 income levels at which families and individuals would be  
30 eligible for subsidies are at, or below, income exemptions







1 presently allowed for personal income taxes. In other  
2 words, they are families or individuals whose incomes are  
3 so low that they are not required to contribute taxes  
4 out of their income directly to the cost of government  
5 service despite the fact that they are in the main able  
6 to support themselves.

7 13. Since the personal income tax is based directly  
8 on "ability-to-pay", it would appear inconsistent that  
9 individuals and families falling into this category  
10 should receive a subsidy towards the cost of their medi-  
11 cal care. The decision as to "ability-to-pay has already  
12 been made by government.

13 14. Maximum income levels eligible for subsidy  
14 also correspond closely to the minimum budget levels  
15 below which it is suggested (Table I, Appendix B) some  
16 subsidization of medical care insurance is required.

17 15. Based on the current group premium for  
18 individuals under the Manitoba Medical Service the  
19 following plan for subsidization of prepaid comprehensive  
20 medical care for income groups near these income levels  
21 is presented:

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TABLE A

A Set of Subsidies for Financing the Cost of  
Prepaid Comprehensive Medical Care

Scale of Subsidy (Per annum)	FAMILIES				
	Income level at which Subsidy Applies by Size of Family				
	2 Adults	2A & 1C	2A & 2C	2A & 3C	2A & 4C
\$108 (100%)	Under \$1000	Under \$1300	Under \$1600	Under \$1900	Under \$2200
\$72	\$1000- 1499	\$1300- 1799	\$1600- 2099	\$1900- 2399	\$2200- 2699
\$36	\$1500- 1999	\$1800- 2299	\$2100- 2599	\$2400- 2849	\$2700- 3099
Nil	\$2000 & over	\$2300 & over	\$2600 & over	\$2850 & over	\$3100 & over

INDIVIDUALS

\$43.20 (100%)	Under \$700
\$20.00	\$700 - \$1099
Nil	\$1100 and over

16. The cost of implementing the above set of subsidies in the Province of Manitoba as of 1961 is estimated to amount to about \$5.3 million. This estimate excludes the cost of providing for those families and individuals whose medical care is currently provided under our recommendations for the Medicare program. This estimated cost is broken down as follows:

	Number receiving Subsidy	Amount of Subsidy
Families	54,000	\$4.2 million
Individuals	37,000	\$1.1 million

Under this plan at least 25 percent of all families and 22 percent of single individuals would receive some





1 subsidy towards the cost of their medical care.

2

3 TERM (d) "THE EFFECTS OF THE INCOME, SALES AND EXCISE  
4 TAXES AND ESTATE DUTIES ON INCOME AND INVESTMENT  
5 FLOWS WHICH AFFECT THE BALANCE OF INTERNATIONAL  
6 and PAYMENTS AND ECONOMIC RELATIONS WITH OTHER  
7 COUNTRIES;"

8 TERM (f) "THE CHANGES THAT MAY BE MADE TO ACHIEVE GREATER  
9 CLARITY, SIMPLICITY AND EFFECTIVENESS IN THE  
10 TAX LAWS OR THEIR ADMINISTRATION."  
11 MEDICAL EXPENSES.

12 17. The Association recommends a change be made in  
13 the method of computing "Medical Expenses" to be claimed  
14 as a deductible item. It is proposed that individuals  
15 should include under medical expenses either the premiums  
16 paid for medical care insurance or the amount actually  
17 paid for medical services if the individual is not insured,  
18 rather than payments made on his behalf by a medical  
19 services plan.

20 18. This should encourage low wage earners to  
21 participate in medical care plans.

22

23 TERM (f) "THE CHANGES THAT MAY BE MADE TO ACHIEVE GREATER  
24 CLARITY, SIMPLICITY AND EFFECTIVENESS IN THE  
25 TAX LAWS OR THEIR ADMINISTRATION."  
26 SALES TAX AND TARIFFS

27 19. The Association in a brief to the Royal  
28 Commission on Health Services discussed the question of  
29 drug costs and tariffs on prosthetic appliances not man-  
30 ufactured in Canada. The following is a quotation from





1 this brief.

2 20. "Rising drug costs have provoked much contro-  
3 versy. Costs of drugs and appliances are estimated by  
4 Sheps" (Ref. Sheps, New Eng. J. Med. 1961, 264, 394) to  
5 amount to 27% of the health care dollar compared with  
6 26% for physicians' services and 31% for hospitalization.

7 21. "Drugs are bought by the public on prescription,  
8 or across the counter as self-medication. In Manitoba  
9 indigent patients on Medicare are provided drugs at  
10 public expense. In addition penicillin is provided for  
11 the prophylaxis of rheumatic fever and Insulin,  
12 Hypoglycaemic tablets and B-12 are provided on a means  
13 test. City welfare cases have prescriptions filled at  
14 city expense at a cost of \$2,000 monthly."

15 22. The high cost of drugs has become an item of  
16 national concern. There is one immediate recommendation  
17 to reduce drug costs in Canada -- that the sales tax on  
18 prescription drugs be abolished. Eight percent tax at  
19 the manufacturer's level pyramids to a much higher  
20 percentage at the retail level.

21 23. Removal of tariffs on prosthetic appliances not  
22 produced in Canada would result in substantial reductions  
23 in cost.

24 Respectfully submitted on behalf of the Manitoba  
25 Medical Association.

26 K. I. Johnson, M.D., President.

27 R. L. Cooke, M.D., Chairman, Economics Committee.

28 M. T. Macfarland, M.D., Executive Director.

29 R.P.H. Sprague, Assistant Executive Director.

30



APPENDIX A

A BRIEF

to the

ROYAL COMMISSION ON TAXATION

from

THE COLLEGE OF  
PHYSICIANS AND SURGEONS  
OF MANITOBA

FEBRUARY, 1963.

WINNIPEG, Manitoba.









I N D E X

Page No.

RECOMMENDATIONS

INTRODUCTION

MEDICAL EDUCATION

(a) Formal Refresher and Post-  
Graduate Courses

(b) Specialist Training

RECOMMENDATIONS

The College of Physicians and Surgeons of  
Manitoba recommends:

1. Formal refresher and post-graduate courses be  
recognized as tax deductible items for practis-  
ing doctors, both generalists and specialists.
2. Those completing specialist training following  
graduation be permitted to average their income  
over a period of years immediately following  
specialist training to include the training  
years (usually 5) and make a final tax settle-  
ment at the end of the recognized period.





A BRIEF

from

THE COLLEGE OF PHYSICIANS AND SURGEONS OF MANITOBA

to

THE ROYAL COMMISSION ON TAXATION

1963

INTRODUCTION

24. The College of Physicians and Surgeons of Manitoba respectfully submits these opinions for your consideration.

25. The College of Physicians and Surgeons was created by the Manitoba Medical Act, February 28, 1877, being preceded by the Provincial Medical Board of Manitoba created by Statute of the first Legislature of Manitoba May 3, 1871. The College has continued under the Medical Act to be the licensing and Disciplinary authority of the medical profession in Manitoba. Only those registered by the College under the Medical Act are entitled to practise medicine, surgery, and midwifery in this province. The College now operates under the authority of Chapter 158 of the Revised Statutes of Manitoba, 1954, as amended by Chapter 45, Statutes of Manitoba, 1962.

26. Every person registered under the Act is a member of the College. The College is governed by a Council determined by formal elections among the medical practitioners registered in the province. In addition there are two representatives of the Faculty of Medicine on the Council. The Council controls and administers





1 the College and makes the necessary by-laws and regulations  
2 under the Act.

3 27. The Council is concerned with the qualifications  
4 of those applying for registration and with matters of  
5 discipline. It has the responsibility to ensure that  
6 practitioners of medicine are competent and to maintain  
7 the highest standards of medical practice and education.  
8 The Council has the duty of assessing Specialist  
9 qualifications and it maintains a Specialist Register.  
10 In doing this, it maintains a close liaison with the  
11 University of Manitoba, the teaching hospitals, the  
12 Medical Council of Canada, and the Royal College of  
13 Physicians and Surgeons of Canada. The Council also has  
14 power to initiate formal inquiry into the practice of  
15 members as well as the duty of acting on all complaints  
16 from any source. These powers are exercised fully in  
17 the general interests of the public, and may result in  
18 suspension of the member, or erasure of his name from  
19 the Register. The judgment of Council is subject to  
20 appeal to the Court of Queen's Bench.

21 28. The College of Physicians and Surgeons is to  
22 be distinguished in origin and function from the <sup>M</sup>anitoba  
23 Medical Association. The latter is a voluntary associa-  
24 tion and generally serves a very different function.  
25 The College of Physicians and Surgeons is primarily  
26 concerned with the education and qualifications of  
27 medical practitioners and with discipline. It is not  
28 directly concerned with medical economics except insofar  
29 as it must exercise its powers of inquiry and discipline  
30 in respect of complaints regarding fees charged for







1 services and other professional matters. The Council  
2 takes pride in the standards of practice which it has  
3 been able to maintain in Manitoba. It also co-operates  
4 with other licensing authorities in Canada in the main-  
5 tenance of similar high standards.

6  
7 TERM (f) "THE CHANGES THAT MAY BE MADE TO ACHIEVE GREATER  
8 CLARITY, SIMPLICITY AND EFFECTIVENESS IN THE  
9 TAX LAWS OR THEIR ADMINISTRATION."

10 MEDICAL EDUCATION

11 (a) Formal Refresher and Post-Graduate Courses

12 29. The College of Physicians and Surgeons of  
13 Manitoba believes that, in the interests of the public,  
14 all efforts should be made to continue the education of  
15 practising doctors. One method of encouraging this would  
16 be to make the cost of formal refresher and post-graduate  
17 courses income tax deductible.

18 30. Formal courses are given by Universities,  
19 hospitals, and recognized scientific organizations, for  
20 practising doctors. If such courses could be accepted  
21 as necessary expenses of practising doctors it would  
22 benefit both doctors and patients. Medical education  
23 suffers from obsolescence and continued training is needed  
24 to maintain and improve standards of care.

25 31. It is relevant to report that The College of  
26 General Practice of Canada requires regular attendance at  
27 approved refresher courses as a condition of membership  
28 in that organization. Many hospitals in Canada now  
29 require general practitioners to be members of The College  
30 of General Practice as a condition of appointment to





1 their medical staffs.

3 (b) Specialist Training

4 32. The College is of the opinion that the high  
5 cost of medical education may be an important factor  
6 in reducing the number of applicants for the study of  
7 medicine. This high cost is composed of the relatively  
8 high university fees and by the long years of training  
9 during which the students' contemporaries are becoming  
10 financially established. The expenditures made by a  
11 student or his family represent a large capital  
12 investment. The vastly increased cost in money and time  
13 of specialist education accentuates this problem.

14 33. There are some income tax exemptions for  
15 students prior to graduation but no recognition for  
16 those proceeding to post-graduate specialist training.

17 34. This College recommends that specialist  
18 training in medicine (normally a five-year period)  
19 and in other professions be recognized in the income tax  
20 structure by permitting the individual, at the end of  
21 the five-year period following specialist training,  
22 to average his income over the past ten years and make  
23 a final tax settlement. This principle is now applied  
24 to certain individuals whose incomes fluctuate widely  
25 year by year.

26 35. This would be a one-time privilege and would  
27 encourage specialist training; raising the standards  
28 of medical care and encouraging professional men to  
29 remain in, or to return to Canada.





1 Respectfully submitted on behalf of the College  
2 of Physicians and Surgeons of Manitoba,  
3 A. P. Guttman, M.D., President.  
4 A. R. Birt, M.D., Chairman Executive Committee.  
5 R. L. Cooke, M.D., Chairman, Finance Committee.  
6 M. T. Macfarland, M.D., Registrar.  
7 R. P. H. Sprague, Assistant Registrar.  
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APPENDIX B

REPORT OF PROF. C. L. BARBER

DETERMINATION OF INCOME LEVELS FOR WHICH SUBSID-  
IZATION OF PREPAID MEDICAL CARE IS REQUIRED

36. To determine the minimum income level at which individuals and families can be expected to meet the costs of prepaid medical care out of their own resources it is useful to look first at the level of assistance payments that are currently being made under various social assistance programs. Both the province of Manitoba and the City of Winnipeg have set up scales of payment which vary with the age and composition of families and which are intended to meet minimum requirements for food, shelter and other living costs. For some requirements, such as food, the payments are designed to provide an adequate diet on the basis of nutritional standards. For other commodities such as clothing the amounts are clearly below what is needed for the individual or family's continuing requirements and are apparently intended to provide a limited amount of funds for clothing for families who are not expected to be on assistance on a long term basis. Although there are variations in the amounts paid by the City and the Province the two scales are very similar.

37. A higher and somewhat more adequate scale of living is that provided in a study made for and published by the Welfare Council in the City of Toronto. This study set out to estimate the "Cost of a Standard of Living in Toronto which Should Maintain Health and Self-respect".  
The Cost of Living, The Welfare Council, Toronto,







Revised, 1944.) But even this is incomplete in some respects and very minimal in others. Thus, no allowance is made in it for such major expenditures as furniture and major household appliances. These items are left to be added as notifications of the main estimate. Again the budget does not include the cost of a telephone or the cost of owning any kind of automobile.

38. In this study it was decided to estimate a minimum budget on the basis of data drawn from both of the above sources. The resulting estimate was then adjusted on the basis of data obtained from a Survey of Family Expenditures in major Canadian cities. (City Family Expenditures, 1955, Reference Paper No. 83, Dominion Bureau of Statistics, Ottawa.)

39. Estimates of the cost of food, fuel, utilities and rent are based primarily on the Family Budget of the Public Welfare Department of the City of Winnipeg (as revised on March 1, 1960). The cost of clothing is estimated on the basis of the Toronto Welfare Council study adjusted for changes in the price of clothing since that study was last revised. For the rest of the budget a flat percentage allowance is added. The resulting estimates for four different family groups are shown in Table I. The family types are respectively

- (1) An adult worker.
- (2) An adult worker and housewife.
- (3) The same as (2) plus a child of 5 years and one of 11.
- (4) The same as (2) plus 5 children, aged 2, 5, 7, 9 and 11 years.





TABLE I

Minimum Family Budget for Four Family Types

	(1) 1 Adult	(2) 2 Adults	(3) 2A & 2C	(4) 2A & 5C
	(Monthly Requirements)			
Food	36.00	56.40	80.00	116.00
Clothing	8.05	17.60	31.40	47.70
Utilities	3.50	3.50	5.00	6.50
Rent	25.00	30.00	40.00	50.00
Fuel	<u>7.35</u>	<u>9.30</u>	<u>12.80</u>	<u>14.70</u>
Sub-total	79.90	116.80	169.20	234.90
All other	32.00	46.70	59.20	70.50
Total	<u>111.90</u>	<u>163.50</u>	<u>228.40</u>	<u>305.40</u>
Equivalent Annual				
Income	<u>\$1,350.00</u>	<u>\$1,950.00</u>	<u>\$2,750.00</u>	<u>\$3,650.00</u>

Note: Annual Incomes are rounded to the nearest \$50.00.

40. Before adopting the City of Winnipeg scale of food payments a comparison was made between this scale and the amounts recommended in the Toronto Welfare Council study. When local prices were applied to the food allowances in the Toronto study, the amounts obtained checked very closely with the Winnipeg scale with but one exception. The amount allowed for a single male adult in the City of Winnipeg scale is apparently based on the amount required by an inactive rather than an active male. Accordingly, for a single adult male the amount obtained in the direct estimate was used.

41. The amounts allowed in the Winnipeg scale for rent and utilities are considered as pretty minimal by some welfare workers but no direct adjustment was made to





1 these amounts. The amounts for heating are based on the  
2 cost of Souris coal and on the City's experience in the  
3 period when coal was supplied directly. The estimates  
4 for the four family types assume two rooms, three rooms,  
5 five rooms and six rooms respectively as the basis for  
6 determining fuel requirements.

7 42. The clothing allowance in the City of Winnipeg  
8 budget was apparently determined as a little more than  
9 half of the expenditure of low income families. Since  
10 this did not seem suitable for use here, the City of  
11 Toronto Welfare scale of clothing allowances was adopted  
12 instead. This may understate the equivalent cost of  
13 Winnipeg since the more extreme climate in the West  
14 increases clothing requirements. It is believed that  
15 clothing prices do not differ substantially between  
16 Winnipeg and Toronto although no exact data on relative  
17 prices is available. The clothing estimates published  
18 by the Welfare Council of Toronto in "A Guide to Family  
19 Spending in Toronto, Canada, 1949" were adjusted for the  
20 price rise since that data.

21 43. The cost of all remaining items in the family  
22 budget was estimated by applying a flat percentage addi-  
23 tion to the cost of food, clothing, utilities, rent and  
24 fuel. This addition was 40 percent for family types (1)  
25 and (2), 35 percent for family type (3) and 30 percent for  
26 family type (4). This flat percentage addition is  
27 designed to cover the cost of such items as furniture,  
28 home furnishing, transportation, recreation, personal  
29 care, household supplies, newspapers, medical care, life  
30 insurance and savings. It may also compensate in some





1 degree for the minimal nature of some of the other  
2 estimates.

3 44. The size of these percentage allowances were  
4 arrived at in the following way. If we label expenditures  
5 on food, clothing, fuel, utilities and rent as "major  
6 group" expenditures, then in the Toronto Welfare Council  
7 budget the "all other" group of expenditures amount to  
8 only 25 percent of "major group" expenditures. On the  
9 other hand, in a survey of Winnipeg families in 1955 the  
10 corresponding percentage was 90. This same survey  
11 indicated that expenditures on the "major group" items  
12 bulk larger in the budgets of the lower income groups.  
13 Thus families with total expenditures below \$2,500 in  
14 seven Canadian cities in 1955 devoted 68 percent of their  
15 total expenditures to the "major group"; for families  
16 in the expenditure range \$2,500 to \$2,999 the percentage  
17 was 63. For these two groups of families, "all other"  
18 expenditure as a percentage of their expenditures on  
19 the "major group" were respectively 45 and 59. This  
20 same study indicated that these percentages decline as  
21 the size of family income increases. These data are  
22 summarized in Table 2. It will be noted that the  
23 percentage allowance made for the "all other" category  
24 of expenditure in Table I is slightly lower than the  
25 amount allocated to this group by urban Canadian Families  
26 whose expenditure was below \$2,500 in 1955.







TABLE 2

Relation between "all other" and "major group" expenditures  
for Various Family Groups

Family Group	"Major Group" as a percent of Total Expenditures	"All Other" as a percent of "Major Group Expen- ditures
1. Toronto Welfare Council budget, family of five	80	25
2. Winnipeg families, 1955	53	90
3. Urban families, total expenditure under \$2500	68	45
4. Urban families, expendi- ture class, \$2500 to \$2999	63	59
5. Urban families, 2 adults	54	84
6. Urban families, 2 adults and 2 children	56	78
7. Urban families, 2 adults and 4 children	61	64

Source: City Family Expenditures, 1955 and a Guide to  
Family Spending in Toronto, Canada, 1949.

45. In order to assess the validity of the estimates  
given in Table I, it is useful to look at the allowances  
granted under some other government assistance programs.  
The following data compare the estimates in Table I with  
the maximum payable under federal government programs for  
veterans, the blind and disabled persons.





1		Single Adult	Married Couple	Married 2C	Married 5C
2					
3		Annual Totals			
4	Table I	\$1,350	\$1,950	\$2,750	\$3,650
5	Veterans, total disability	1,800	2,400	2,820	3,252
6	Veterans allowances, permissible ceiling income	1,080	1,740		
7					
8	Blind, permissible income ceiling with allowance	1,200	1,980		
9					
10	Totally disabled, permissible income with allowance	960	1,620		
11					
12	Maximum unemployment insurance benefit, 52 wks.	1,404	1,872	1,872	1,872
13					

Source: The National Finances, 1959-60, Canadian Tax  
Foundation.

46. Examination of the data in this Table indicate  
that the estimates in Table I are not widely different  
from the amounts paid under these other programs. This  
suggests that these incomes should be considered the  
minimum levels at which people might be considered able  
to meet the cost of prepaid medical care. They might  
well be regarded as the lower limit of an income range of  
several hundred dollars over which people would find it  
increasingly easier to meet the costs of prepaid care.

47. It should be noted that these estimates are  
based on living costs in the Winnipeg metropolitan area.  
There is reason to believe that living costs are usually  
lower in rural areas and in smaller urban centres.





1 However, this may not be true of the more northern parts  
2 of the province. No precise estimate of the amount of  
3 these differences is available.

4  
5 CONCLUSIONS

6 48. These data suggest that individuals and families  
7 in urban areas of Manitoba whose income is below the  
8 following levels, require some subsidization in meeting  
9 the costs of comprehensive medical care.

10	1 Adult	\$1,400
11	2 Adults	2,000
12	2 Adults & 2 Children	2,800
13	2 Adults & 5 Children	3,700

14  
15 49. Since living costs in rural areas and smaller  
16 towns are usually lower than in larger urban centres, any  
17 plan of subsidies which is based on the above scale of  
18 incomes would also adequately cover the needs of people  
19 who live outside of the larger urban centres.



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9 SUBMISSION

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12 MORRIS NEAMAN

13  
14 TO THE

15 ROYAL COMMISSION ON TAXATION

16  
17 WINNIPEG 1963  
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1 INTRODUCTION

2 1. It is our purpose to set out generally  
3 accepted principles of taxation -- to relate by  
4 way of reference the historical development of  
5 tax systems, point out what we consider apparent evils,  
6 and to enunciate specific recommendations.

7 2. Firstly, we define a tax as an obligatory  
8 contribution by persons in respect of, or incidental  
9 to something which they possess, or something they  
10 do. As defined by Sir Robert Giffen:

11 "Taxes in the proper sense of the word  
12 are contributions by individual members  
13 of the community to the expenses of  
14 the state".

15 (1)

16 They must be distinguished from payments which  
17 confer corresponding benefits, such as water  
18 rates, since taxes in the true sense are a com-  
19 pulsory payment where there is no guarantee of a  
20 definite return.

21 3. In considering any proposal for national  
22 taxation, two factors are essential:

- 23 (a) to assure the Treasury of sufficient  
24 revenues to meet the public need, and  
25 (b) to assure that the burden is equitably  
26 distributed among those required to  
27 contribute.

28 We can refer to the first as the principle of  
29 economy and the second as that of equity. Without  
30 the first the government cannot fulfill its







responsibilities; without the second there is injustice and a lessening of economic activity.

"To create offices and to establish government is for the end of nourishing the people. To tax the people and to get revenue is for the means of supporting the government. A wise ruler does not increase the means at the expense of the end. Therefore, he must first pay his attention to the business of the people and give them a full chance for their economic activities. He must first enrich every family and then collect the surplus of their income".

(2)

#### Development of Taxing System

4. Historically, taxation was essentially proportional and fixed to the ownership of land. Land owners were required to contribute to the defence of the state and as contribution of men at arms became outmoded, the state provided the defence but obtained the necessary revenues by a tax on land. Subsequently, this was varied to include property both real and personal, but land remained the principal source of revenue.

5. With changing patterns of wealth it became obvious that an individual could have a large income without owning land and own large





1 acreage without corresponding income. In Great  
2 Britain, from the period 1840 to 1890, direct  
3 tax on income represented only 10% of total  
4 revenues. By 1900 this increased to 25%, and  
5 in the period 1900 to 1912 it rose to 40% of  
6 total revenues<sup>(3)</sup> Here in Canada income taxes  
7 have increased from 27% of total revenues in  
8 1939 to 55% in 1958. (4)

9  
10 6. The case for proportional taxation  
11 rested on the assumption that the existing distri-  
12 bution of wealth was the best possible and should  
13 be maintained. If one accepts this premise, then  
14 a fixed proportion as applicable to all individuals  
15 in the state, regardless of the amount of their  
16 income would be the most equitable.

17 7. Progressive taxation rests on the princ-  
18 iple that taxes should be collected from those incomes,  
19 or parts of incomes, which are of least utility to  
20 the community or to the individual. Applying the  
21 progressive principle, taxation increases percen-  
22 tage-wise as income increases, to a point where,  
23 having passed a particular point in income, the  
24 taxpayer has any surplus confiscated by the state.  
25 It is this principle which has become the standard of  
26 taxing statues in the majority of countries.

27 8. There seems little doubt that the pro-  
28 gressive principle in taxation is as valid today as  
29 it was at the turn of the century, but what is nec-  
30 essary is a re-appraisal, a redefining, a re--





1 application of the principle to meet the current  
2 economic situation in Canada.

3  
4 PART I - INDIVIDUAL

5 Proposals

6 We would recommend as follows:

7 9. A tax equal to 10% of all payrolls, be  
8 they daily, weekly, or monthly, which tax is to be  
9 paid by the employer;

10 a) Self-employed individuals will remit  
11 quarterly an amount equal to 10% of  
12 net income.

13 b) Those required to pay interest, royal=  
14 ties, dividends, etc., will deduct 10%  
15 of such payments and remit. In the  
16 case of payments received from non=  
17 residents, the recipient would remit  
18 an amount equal to 10% of the payment  
19 received.

20 10. Individuals whose annual income does not  
21 exceed \$6,000 will pay no further tax and are not  
22 required to file a tax return.

23 a) Individuals whose annual income exceeds  
24 \$6,000 are required to file returns.

25 Personal exemptions should be abolished.  
26 If specific problems require assistance  
27 these can better be adjusted through  
28 the vehicle of Old Age Security and  
29 Family Allowance payments.  
30





b) A married couple whose total annual income exceeds \$6,000 are required to file a joint return and the total income will be subject to tax at the same rate as individual tax payers.

c) Dividends received from taxable Canadian corporations will be subject to no further tax than the 10% deducted at source. Dividends received from foreign corporations will be included in calculating personal income.

11. Incomes between \$6,001 and \$56,000 will be subject to further tax of 20% on the income in excess of \$6,000. Incomes between \$56,001 and \$106,000 will be subject to a tax of 40% on the income in excess of \$56,000. Incomes above \$106,000 will be subject to tax at the rate of 60% on the amount exceeding \$106,000.

12. In establishing the basic rate of 10% on all income we are suggesting a proportional contribution that every citizen owes for the operation of government regardless of that income level.

"A state cannot support itself if the subjects do not support it. Now this support includes all the needs of the state, to which, consequently, all the subjects are obliged to contribute. From this necessity there follows first, a natural obligation of subjects of every condition to contribute in







1 proportion to their income or their in-  
2 dustry without any of them being able  
3 reasonably to escape it; secondly,  
4 that it is sufficient to authorize this  
5 right to be a subject of the state;  
6 thirdly, that every privilege which  
7 tends to exemption from this contrib-  
8 ution is unjust and an abuse and can  
9 only prevail to the prejudice of the  
10 public.....It is therefore essential  
11 that each contribute to the needs of  
12 the state according to his income, by  
13 such proportion of which no one can  
14 complain because it would be so spread  
15 and distributed that although it would  
16 be equally born by all individuals from  
17 the highest to the lowest no one would  
18 be over charged because no one would  
19 bear it except in proportion to his  
20 income."

(5)

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13. It is our purpose to have the tax paid by employers at source in a manner simple of calculation and equitable in its results among employees. At present, employees doing exactly the same work receive varying amounts in take-home pay, due to tax deductions that differ with circumstances that have nothing to do with their employment and production.
14. Under our proposal each employer would





1 contribute an amount equal to 10% of his payroll  
2 and every employee would receive his full wages  
3 without deduction regardless of his marital status  
4 and family obligations.

5 15. There will perhaps be additional cost to  
6 the employers on inception of the plan to insure that  
7 no employee's take-home pay is reduced because of  
8 the tax change. This will obviously be the case  
9 in the situation where present employees  
10 are not taxable. However, these added costs will  
11 have to be born during the initial transition phase,  
12 but in the long run salaries and wages will be  
13 fixed by the force of labor supply and demand.  
14 Total labor costs will find their proper level in  
15 the value of the service performed by the employees.

16 16. Mirabeau, an 18th century economist, sets  
17 out three essentials of a satisfactory taxing  
18 system:

- 19 a) that it should be established immediately
- 20 at the source of revenues;
- 21 b) that it should be in a known pro-
- 22 portion and suitable to these
- 23 revenues;
- 24 c) that it should not be over-burdened
- 25 with the expenses of collection.

(6)

26  
27 17. The scheme we have suggested incorporates  
28 these three essentials. It will be calculated at  
29 source -- it will be of a fixed amount -- and the  
30 costs of collection and administration will be





1 minimized. Particularly is this so when we elim-  
2 inate the filing of returns of those whose income  
3 is under \$6,000 per annum. Based on the taxation  
4 year 1958 this would reduce the tax roll by approx-  
5 imately 88%.\* In addition, employers would be saved  
6 the very substantial costs of making individual  
7 computations.

8 18. Under this proposal personal exemptions  
9 will be abolished. If it is intended to assist  
10 large families with low incomes, this should be  
11 done through Family Allowance payments and not  
12 through variation on taxable income. We should  
13 not distort the tax system for sociological pur-  
14 poses. This proposal will also eliminate the exist-  
15 ing resistance to work on the part of a great number  
16 of wage earners.

17 19. With regard to a married couple, it is  
18 our opinion that they should be considered as one  
19 person for income tax purposes, since it is the  
20 family unit with which we are dealing. The low  
21 basic rate on the sum of \$6,000 will create an  
22 incentive in the lower income levels to increase  
23 total family earnings, while the effect of a joint  
24 return above \$6,000 may result in women leaving  
25 the labor field.

26 20. Since corporate profits will be taxed  
27 40% in the hands of the corporation and an addi-  
28 tional 10% before transmission to the shareholder,  
29 it is our submission that this is a sufficient  
30 tax burden and that such dividends should not be





1 included in computing individual taxable income.  
2 Such a scheme will be a real incentive for in-  
3 vestment in Canadian industry and will permit the  
4 investor to predetermine with certainty the "net"  
5 return on investment.

6 Rates

7 21. We are recommending that income up to  
8 \$6,000 per annum be subject to no direct tax. The  
9 government will have received a 10% contribution  
10 from the employer, but the wage earner at this level  
11 of income will pay no additional tax. It should  
12 be clear that our proposal contemplates no additional  
13 deduction at source. In other words, the employer  
14 would be responsible only for the payroll tax of  
15 10%. Any additional tax, (on incomes above  
16 \$6,000) would be paid directly by the wage earner  
17 to the government.

18 22. Between \$6,001 and \$56,000 we are re-  
19 commending that the excess, namely \$50,000, be  
20 subject to an additional tax of 20%. This particular  
21 group of taxpayers holds an important place in our  
22 society. It includes the bulk of our professional,  
23 managerial and executive personnel who must be  
24 given tax incentives in order that their personal  
25 sacrifices be rewarded. In the present competitive  
26 world situation these sacrifices are essential if  
27 our economy is to expand and to operate efficiently.

28 23. In an article appearing in the "U.S. News  
29 & World Report" of March 18th, 1963, written by  
30 Rene A. Wormser, the present tax system is critically







1 appraised and at page 60 the following appears:

2 "The conclusion is inevitable, that the  
3 citizen who is most hurt by the progress-  
4 ive personal income tax system is the man  
5 in the middle -- the man in the economic  
6 class which is most important to our  
7 society. This class includes the pro-  
8 fessionals, the self-employed, the high  
9 grade artisans, the teachers and the small  
10 businessmen. This class in particular is  
11 hurt by two philosophic absurdities which  
12 underlie the progressive tax system; the  
13 reward granted for extra work and greater  
14 effort is the imposition of a higher tax  
15 rate and after a member of this class has  
16 gone through what is usually a long period  
17 of economic struggle his peak income is  
18 clipped off by the tax law during that  
19 often short period during which he has  
20 attained financial success. Indeed, govern-  
21 ment created inflation increases his tax  
22 burden".

23 24. We are not abandoning the principle of a  
24 progressive tax rate. What we are suggesting is  
25 that the steps, in the progression be levelled out  
26 and that the incentives for greater production,  
27 the rewards for greater effort, be extended by in-  
28 creasing the area in which income can be earned  
29 without attracting confiscatory tax rates.

30 25. Above the range of \$56,000 we recommend a





rate of 40% of the excess and above \$106,000, 60% of the excess. These latter two categories represent relatively few tax payers in the country, nonetheless we should not maintain a system that is punitive at the upper level. The reduction from the present 80% to 60% on the upper limits would have less impact on an expanding economy than the proposed reduction in the area from \$6,000 to \$56,000.

26. It is our considered opinion that the proposed rates would in no way threaten the revenue position of the federal authorities. It is estimated that gross personal income in Canada for the year 1958 totalled \$16.2 billion. The amount received in taxation was \$1.3 billion. The average percent of tax on total income was, therefore, 8.52%.\* If our scheme is introduced, the national government would receive an amount of 2.04 billion, or an increase of \$657 million.\*\*

## PART II - CORPORATIONS

27. We now turn to deal with the other legal entity subject to income taxation; namely, the corporate structure. Our recommendations are as follows:

- a) that the rate of corporate tax should be 40% from the first dollar of taxable income;

\*See appendix "A"

\*\* See appendix "B"





- b) that the exemption of Crown corporations, non-profit corporations, limited dividend corporations, co-operatives and credit unions be abolished.;
- c) that all corporations doing business in Canada should be subject to the same level of taxation;
- d) that corporations be obliged to declare and pay dividends annually in an amount not less than  $1/20$  of the undistributed income of the corporation accumulated to the end of the previous taxation year;
- e) that restrictions should be enacted so as to prevent the use of corporations having financial losses as tax saving devices for other corporations;
- f) that fees charged by non-residents for administration or other services rendered to tax paying Canadian corporations should be subject to the same taxation rules as above set out for the payment of salaries and wages; namely, that the Canadian corporation should remit a tax equal to 10% of such fees charged and a further 15% non-resident tax should be deducted and remitted at the time of payment of these fees;
- g) that legislation should prohibit the accumulation of income in corporations set up in areas outside Canada for the





g) express purpose of avoiding Canadian  
taxation.

28. In recommending a rate of 40% from the first dollar of taxable income we are suggesting an amendment to the present Section 39, wherein the tax payable by a corporation is 18% of the taxable income if it does not exceed \$35,000, and \$6,300 plus 47% of the amount by which the taxable income exceeds \$35,000. Adding on the tax for Old Age Security, we have a gross tax of 21% on the taxable income of corporations earning \$35,000 or less, and 50% on those corporations whose taxable income exceeds \$35,000.

29. The principal purpose in these provisions is to assist the small corporate operations, particularly those which are owner operated. It is clear that some type of assistance is necessary; particularly the need for reinvesting the income of the company in the expansion of the corporate business.

30. It was argued that the existing provisions were inequitable in their effect on the small corporation, because to take the same proportion of the taxable income of the small corporation as compared to the income of the large public corporation had a more serious dollar impact on the smaller company; and further, that in the area of financing capital expansion, the large corporation had available to it capital resources internally developed, and was in a  
in the money market.







31. While the rationale behind the provision is meritorious, the present complexities of the statute and its effects on the taxing system require re-appraisal. Our proposed rates on individual income will permit proper compensation and increased incentives for the expansion of corporate business. In addition, we feel that the proposed rate of 40% on all corporations, regardless of amount of taxable income, does not impose an undue hardship upon the small corporation so long as generous taxing provisions are provided on the individual level. The amount that will be taxable will be that which remains after deducting the appropriate salaries.

32 In the family owned, or owner-operated small company, the after tax portion of such salaries beyond the immediate needs of the recipient are available to be loaned to the company in exchange for preference shares or promissory notes, or other forms evidencing liability by the corporation. In this way the company can obtain working funds for expansion and the individual can build up his equity in the corporate enterprise.

33. No sooner were the provisions of Section 39 enacted than there was the tendency for larger corporations to divide themselves into smaller ones, each with a taxable income of less than \$35,000, so as to take advantage of the lower rate. In an attempt to frustrate this tendency, provisions were inserted into the Act with regard to





33. associated corporations, and we have the situation today where it would take a lawyer, with the assistance of an accountant, a mathematician, and a fortune teller to accurately advise as to whether companies would be associated in any specific situation.

34. In the November-December issue of the Canadian Tax Journal, Vol. 10, No. 6, at page 460, Mr. J. V. Decore states:

"Section 39 has three major weaknesses:

- (i) corporations with no economic association may be associated even though such an association could be most unfair and at times ludicrous;
- (ii) the tax avoider, the person at whom this very legislation was directed, can still side step the higher rate by forming several corporations which may even be carrying on the same business enterprise;
- (iii) in some cases, utter confusion will arise due to ambiguous terms and procedures."

35. These sections on associated corporations, related corporations, etc., perhaps best illustrate the prime evil existing in our laws today; that of complexity with the resultant inability of even experts to understand and apply the regulations and provisions. Mr. R. A. Wormser, in the "U.S. News & World Report" above referred to,





35. sums it up as follows:

"Tax laws should be understandable to the citizen of average intelligence. Our present laws are so infinitely complex that it is far beyond the comprehension of experts, and indeed there are few experts if any who know and understand all its provisions. In its rates and often in its theory, our income tax system is frequently very harsh and even punitive. Therefore a good percentage of the members of the bar and our chartered accountants apply their brains and energy to devising ways in which to get around objectionable features of the law by legal means. A way is found in which to legitimately avoid a harsh rule, whereupon the tax department ..... concludes that a loop hole has appeared; the loop hole is closed by a new piece of legislation intended to be remedial, and generally more complexity results."

36. Our proposals would not impose an undue hardship on small corporations, while the recommendations on individual tax rates would maintain the interest efficiency.

37. In short, it is our opinion that the objectives of Section 39 can be maintained while eliminating the formation of corporations that are created solely to take advantage of corporate





37. taxation at the 21% rate.

38. It is an underlying principle of taxation that taxes should be applied equitably and that persons in the same position should bear the burden of taxation equally, or as was stated by Hobbs:

"Equal justice demands the equal imposition of taxes and this equality depends not on the equality of riches but on the equality of the debt that every man owes to the Commonwealth."

(7)

39. Corporation income tax is a tax on enterprise -- successful enterprise. Provided it is levied upon enterprise equally the supply of capital will shift the margin of profit upwards to provide the greater part of the tax collected. Corporation income tax then becomes a cost even though it is a tax on profits. To exempt major elements of corporate enterprise from paying this proportion of the required revenues of the state is detrimental in several respects:

1) It shrinks the stream of funds from which revenue can be produced and reduces the financial resources of the state.

2) It imposes an ever-increasing burden on the enterprise that cannot avoid the tax and imposes costs upon certain enterprises and not on others.







1 39. 3) It distorts the pattern of investment

2 having regard to the optimum allocation  
3 of resources for economic efficiency.

4 40. The advocates of state socialism, free  
5 enterprise and co-operative enterprise, each claim  
6 a margin of economic efficiency and social contri-  
7 bution. There are efficiently run and mismanaged  
8 examples in all three areas, but the existing  
9 exemption from corporate income tax imposes differ-  
10 ent standards upon these areas of enterprise.

11 41. There can be little doubt that corporate  
12 income tax is viewed by corporate investors as a  
13 cost. Profitability, and in particular prospect-  
14 ive profitability, is gauged in terms of "yield  
15 after taxes". Non-taxable enterprise can exist  
16 in circumstances where the rate of return to cap-  
17 ital is substantially lower than in the purely  
18 private sector. In the long run, such a differ-  
19 ential implies an alteration of investment from  
20 private to non-taxable form and a diversion from  
21 the most efficient use of investment resources.  
22 The co-operative enterprise may be extremely de-  
23 sirable from a social point of view. If so, it  
24 should be encouraged by some other means than  
25 tax exemption.

26 42. Corporate income tax exemption weakens  
27 the economic structure by reducing the economic  
28 standards required for investment, and these by  
29 legal rather than economic means. Further, insofar  
30 as the policy of fiscal encouragement is effective





42. in promoting non-taxable as opposed to taxable enterprise, it is self-defeating since the revenue must be provided from an ever reducing base. If the present corporate tax burden were reduced by spreading the revenue requirements of the state over all corporate enterprise in the nation instead of imposing a discriminatory burden on some, the rate of taxation could be reduced while maintaining or increasing revenues realized.

43. It is alleged that the payment of income tax by Crown corporations is artificial since it amounts to transferring funds from one pocket of the public to another, however corporate income tax is a current charge on enterprise and should be levied as such. It is not sufficient that the profits of Crown corporations will eventually find their way into consolidated revenues, the expenses of the state are current in nature and must be obtained from the taxpayers presently in existence. Crown corporations should be required to make their contribution to current expenses.

44. In addition, the role of Crown corporations is not equal in the various regions across Canada. By participating in the federal corporate tax the Crown enterprise would make a contribution to the resources of the provinces under present tax sharing agreements.

"The obligation of paying taxes must be general and equal. Exemptions of individual classes or persons are to





1 44. "be avoided. The private right of in-  
2 come of the state must, as against  
3 the community, be liable to taxes  
4 that it may not, in competing, stand  
5 in a more favorable position than  
6 that of private individuals. Communi-  
7 ties and other legal persons are to  
8 be equally liable to taxes in respect  
9 of their economic profits." (8)  
10

11 45. We do not advance this proposal with a view  
12 to upholding a particular form of economic enter-  
13 prise, be it state, private, or co-operative. Our  
14 purpose is to recognize that corporate income tax  
15 is a charge upon enterprise for the current public  
16 expenses, and that these public expenses must be  
17 met. The charge should be recognized as a cost of  
18 enterprise. Unless this is done an increasingly  
19 heavy burden is placed upon those enterprises and  
20 individuals which cannot avoid the tax, with dis-  
21 tortion of investment pattern and the diminution of  
22 revenue for public purposes. As stated by John  
23 Stuart Mills:

24 "For what reason ought equality to be the  
25 rule in matters of taxation? For the  
26 same reason that it ought to be so in all  
27 affairs of government. As the government  
28 ought to make no distinction of persons  
29 or classes in the strength of their claims  
30 on it, whatever sacrifice it requires of





45. "them should be made to be as nearly as possible with the same pressure upon all which is the manner by which least sacrifice is occasioned on the whole. If any-one bears less than his fair share of the burden, some other person must suffer more than his share. Equality of taxation therefore as a maxim of politics, means equality of sacrifice. It means apportioning the contribution of each person towards the expenses of government so that he shall feel neither more or less inconvenience from his share of the payment than every other person experiences from his."

(9)

46. In regard to point (d), the requirement that corporations declare and pay an annual dividend of not less than 1/20 of the undistributed income of the company, such a provision would:

- 1) guarantee to the government a fixed proportion of net income since the corporation would be required to deduct a tax equal to 10% of the dividends so declared and paid;
- 2) assist in preventing the build-up of large surplus profit accounts which are of little use to the economy of the nation;
- 3) act to reduce the substantial surplus







- 3) "profit accounts that are presently held by inactive corporations;
- 4) give some degree of consideration to the rights of minority shareholders;
- 5) make possible a more accurate determination of the value of the share of a company that is being sold as a going concern, (since the cost of paying out the earned surplus would be known to be 10%);
- 6) provide greater certainty in forward planning.

47. Under this scheme tax paying Canadian corporations would not include such dividends received in calculating income for tax purposes and they would be permitted to deduct from taxes otherwise payable the amount of tax remitted by the paying corporation in respect to such dividends.

48. As to restrictions on the acquisition of corporations with losses so as to minimize taxation for the purchasing corporation, we suggest that as a matter of principle a corporation with a loss on its books should not be saleable because of that loss. In addition, where one corporation would be taxable and is able to avoid this tax by purchasing another corporation with a loss, the burden of that taxation is placed on those remaining taxable corporations. It is imperative that equity of tax burden be applied in the corporate as well as the individual field.





49. In computing income, both personal and corporate, provision should be made for shrinkage or depreciation in value of business assets. Depreciation of assets should be continued at the present rates but applied on a straight line rather than on diminishing balance basis. Recaptured depreciation terminal loss should be included as a part of income or expense in the year assets are realized.

50. Deduction should be permitted of reasonable provision by the taxpayer for uncollectable receivables or for inventory loss through deterioration, style change, shift in price levels, or other reasons. In this area taxing authorities have been too rigidly bound by mathematical formula rather than sound business experience. The prudent businessman should be allowed to determine realistic values in both inventory and receivables. If the allowances are excessive, this amount will be brought into income in a subsequent year in much the same manner as the recapture of depreciation.

#### Taxation of Capital Gains

50. In this area, the Canadian tax laws tend to follow in principle the British, rather than the American rules; namely, that income tax is a tax on income and not on capital. While this principle is clear, its application has been so narrowed and so distinguished that today no one would sensibly guarantee that in a specific situation a





50. profit would be considered capital as opposed to income. It has reached the ludicrous situation where one tax expert advises that in order to avoid having a capital gain charged as income, one should:

"Not make a capital gain on purpose;  
not do it often; do it alone; look like  
an investor and not a predator; don't  
make it quickly; do as little as possible  
yourself."

(10)

52. While the intricacies of these legal decisions may be amusing, their impact on the economy is particularly harmful. It would be preferable that all capital gains be taxed a fixed rate so that the investor would know with certainty his burden and the return on investment rather than the present chaos where investments are made, capital gains result, and are subsequently taxed as income. It is essential that the new legislation contain a clear definition of capital gain.

"The tax which each individual is bound to pay ought to be certain and not arbitrary....where it is otherwise, every person subject to tax is more or less in the power of the tax collector .....certainty of what each individual ought to pay is in taxation a matter of so great importance that a very considerable degree of inequality is not near





52. so great a fault as a very small degree  
of uncertainty."  
(11)

53. We recommend that a capital gain be taxed at a proportional rate of 25%. There should be no requirement that investments be held for a specified period of time before being eligible for such a rate. In addition we recommend that capital losses be allowed as a deduction from gains in the capital account with a carry-back of two years and a carry-forward of five years.

54. It has been our purpose in this submission to make positive recommendations for tax provisions that are just, simple and economical. As one authority has stated it:

"Economy from the point of view of the governing power will mean economy of administration, chiefly with reference to collection. It will call for a swift and simple means of obtaining such sums as may be needed by some system elastic enough to respond to possible increase of demand without any considerable increase in the difficulties of obtaining the monies required. It will call for a system that needs a minimum of machinery for collection which calls forth a minimum of resistance and evasion. Taxes would be economical from the standpoint of the individual







1 54. "if they left untouched his working  
2 capital, his health and his efficiency,  
3 and if he might reckon with sufficient  
4 certainty the amounts that will be re-  
5 quired of him for sometime ahead."  
6 (12)

7 55. This submission has been confined to the  
8 problems created by direct taxation on the income  
9 of the individual and the corporation and in this  
10 area we must also mention death duties and estate  
11 taxes. The problems created by such levies are  
12 well known to the Commission, suffice to say that  
13 they can create grave problems for survivors,  
14 particularly in family owned corporations.

15 56. These problems were noted during dis-  
16 cussion which preceded enactment of the present  
17 sections of the Income Tax Act dealing with dis-  
18 tribution of undistributed income and the amend-  
19 ments affecting "quick succession" in the Estate  
20 Tax Act. While these revisions have, to a degree,  
21 eased the burden occasioned by death, what is  
22 ultimately required is a procedure which would  
23 permit the payment of estate taxes during the  
24 lifetime of the donor.

25 57. We suggest that once a person has accumu-  
26 lated a net worth of \$100,000 he be permitted to  
27 file a statement of personal assets and pay tax  
28 on the amount in excess of \$100,000. This tax  
29 would be at a fixed rate, (i.e. 10%), and once  
30 paid would relieve his estate from further





57. estate duties. Annually thereafter he would file a statement of net worth and pay tax on the growth in value.

58. A married couple should be regarded as one taxpayer and would file a joint return when their combined net worth exceeded \$100,000. Losses in estate value in any year would be deductible from the growth of other years by making provision for a two year carry-back and a five year carry-forward.

59. In the rare situation that the tax paid estate value diminished sharply just prior to death, there would be a refund of tax based on value at the date of death, just as we now refund prepaid income tax where death occurs during the year.

60. In short, we are proposing a procedure whereby the taxpayer may voluntarily prepay death duties and estate taxes with the result that estate planning would become more meaningful than the present situation permits. Such a scheme would improve current revenues of the state and reduce required borrowings and debt charges. In addition, the state where the wealth was accumulated would benefit, instead of the state where death occurs.

61. The constitutional authority of both provincial and federal governments to tax on succession present obvious problems. Nevertheless, the federal authorities should investigate the





1 61. feasibility of a federal-provincial arrangement  
2 which could, to a large extent, eliminate the  
3 present problems of estate planning and income  
4 taxation.

5 62. We have attempted in this submission  
6 to point out basic principles that should govern  
7 any taxing situation. The detailed provisions  
8 must rest with the experts, but one factor should  
9 be predominant and that is that the spirit, as  
10 well as the letter of the law should govern. Our  
11 present law, unfortunately, concerns itself more  
12 with form than substance. If the taxpayer achieves  
13 a result in one way, he avoids the tax; if the same  
14 results are achieved by an alternative procedure,  
15 he is penalized. A taxing statute should face up  
16 to the revenue requirements of the state and the  
17 need for equitable treatment of taxpayers.

18 63. We are building around the human race,  
19 century after century, a vast artificial environ-  
20 ment and taxation is one of the incidentals of  
21 that environment. Our task is to find its nature,  
22 its function, its effects, its best use. To grow  
23 angry with our discoveries is childish; to be  
24 dissatisfied with them is human and hopeful; to  
25 be over-eager to reject or accept them is to be  
26 prejudiced. We are builders of a social fabric  
27 and some of us, in a sense, are architects.  
28 Builders or architects, we need most of all --  
29 and constantly -- a sense of proportion.

30 All of which is respectfully submitted,  
MORRIS NEAMAN





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- 29 -

APPENDIX "A" To be photographed.

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APPENDIX "B" - To be photographed

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FOOTNOTE REFERENCE SHEET

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- (7) Leviathan - Hobbs - Part II page 30
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- (9) Principles of Political Economy - J.S. Mills
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BRIEF TO ROYAL COMMISSION ON TAXATION

Fairness should be one of the chief objects of taxation. Everyone should pay his or her fair share of taxes. The person whose only income is wages or a salary, generally speaking, pays his proper share, and so should everyone else regardless of the source of income. People should not, because of their wealth or because of the sources of their income, be able to pay less than their share, while at the same time, employees pay an income tax on every dollar they earn. If there are reductions in income tax to be made, these reductions should be for the benefit of all taxpayers and not just a comparatively few. If changes are made as suggested below, present revenues could be maintained, and there could be an increase in exemptions or a reduction in rates for all taxpayers, and that is what I advocate. The present government is to be commended for plugging some of the loop holes at its present session.

20% DIVIDEND DEDUCTION:

Since 1953 one has been able to deduct from income tax 20% of the stock dividends, common or preferred, received from taxable Canadian corporations. This is a very large deduction. It means that a married man having exemptions of \$2100.00, and with no dependents other than a wife with an income of \$250.00 or less, may have an annual income of \$11,530.00 from such dividends and pay absolutely no income tax, other than \$90.00 Old Age Security Tax.









1 To obtain such an income from dividends, one must  
2 be a wealthy man. The Financial Post lists the  
3 average yield of 114 common stocks on July 22, 1963,  
4 as being 4.40%, so that if stocks yielded that  
5 average to obtain an income of \$11,530.00, then the  
6 stocks would have a value of \$262,045.00 or over  
7 a quarter of a million. That is a lot of money,  
8 and such a person pays absolutely no income tax  
9 other than \$90.00 Old Age Security Tax. A person  
10 with similar exemptions who received the same  
11 income from his wages only would pay \$199.00 income  
12 tax plus Manitoba Hospital Service Tax of \$119.94 and  
13 Old Age Security Tax of \$90.00 - or a total of  
14 \$2208.94.

15 Either of such persons could of course have  
16 considerably more in assets and still pay no more  
17 income tax if these assets were non-revenue-bearing  
18 such as a shooting lodge, a summer home, expensive  
19 paintings, diamonds, a yacht, automobiles, a home  
20 with expensive furnishings, and life-insurance  
21 policies. Furthermore, they could own non-revenue  
22 bearing oil or other stocks which might result in  
23 substantial tax-free capital gains. Accordingly,  
24 a person can be very wealthy and pay no income tax.

25 Some may say that the corporations which pay  
26 dividends have already paid a corporation tax and  
27 that this 20% dividend credit helps to prevent double  
28 taxation. But I submit that the corporation tax  
29 is in reality an operating cost, and is paid by the  
30 consumers of the products produced by the corporations.





1 This is born out by the fact that since 1946, the  
2 general rate of corporation tax in Manitoba has  
3 increased from 18% to 51%, and during that period.  
4 dividends have not been cut, but have gone up  
5 Increased corporation taxes have been passed on to  
6 the consumers. This would seem to be confirmed  
7 by the following quotations from the Toronto Globe  
8 and Mail:

9 On April 19th, 1961 - "One of Canada's leading tax  
10 authorities, Dr. A. Kenneth Eaton, Ottawa fiscal  
11 consultant, told the legislation conference of the  
12 Canadian Manufacturers' Assoc. that the corporation  
13 tax seems to be treated almost universally by  
14 businessmen in the manner of the 11 per cent sales  
15 tax which, as a matter of course, must be added in  
16 for purposes of costing and pricing. "I cannot  
17 prove it", he said, "but I believe that the burden  
18 of the corporate tax over the past decade and a half  
19 has been mainly passed on to consumers in the form  
20 of slightly higher prices".

21 On June 7th, 1960 - Mr. W. H. Evans, a past  
22 president of the Canadian Manufacturers Association,  
23 was quoted as saying - "Not one person in a thousand  
24 realizes that a corporation, being impersonal, cannot  
25 bear taxes. We should spare no effort to get it  
26 across to the general public that these taxes ---  
27 all of them --- merely become a part of the company's  
28 operating expenses and, as such, are inevitably  
29 reflected in the price paid by consumers."

30 On November 27th, 1962.- Mr. Frank S. Capon, Vice





President of Du Pont of Canada Ltd., was quoted  
as follows -

"Mr. Capon said that, among its other defects, the  
corporate income tax lowered wages, raised prices and  
made industry less competitive, encouraged business  
to arrange its affairs to take advantage of tax  
considerations rather than to operate in the most  
efficient manner."

In the United States, some have advocated a  
similar stock dividend deduction from income taxes,  
but such a deduction has only been granted to the  
extent of \$50.00 and 4% of dividends received above  
that amount.

In the United Kingdom, it is a principle that  
one pays a much higher tax on unearned income. The  
following table is in U.K. pounds, and sets out income  
tax payable in the U.K. in respect of a person under  
65 years with allowances all can claim:

<u>Income before tax</u>	<u>SINGLE PERSONS</u>		<u>MARRIED COUPLES WITHOUT CHILDREN</u>	
	<u>Income</u> all earned income	<u>Income</u> all in- vestment income	<u>Income</u> all earned income	<u>Income</u> all investment income
1,000	179	264	133	217
5,000	1428	2321	1381	2252
10,000	4080	5930	4001	5846

From the above, it is seen that generally speaking,  
income tax rates in the U.K. are about 50% higher on  
investment income as compared with earned income. It  
is to be noted that if one's total income is all  
investment income and it is below 450 pounds a year,





1 it is regarded as being earned income.

2 Taxing stock dividends in the same way as other  
3 income would benefit taxpayers as a whole, because  
4 we would have an increased demand for bonds and  
5 mortgages and thus lower interest rates on government  
6 bonds, and so - lower taxes. At present, because  
7 of the stock dividend tax credit and the opportunity  
8 for non-taxable capital gains, many individuals and  
9 the managements of large mutual funds, buy stocks  
10 instead of bonds, so that Canadian Government bonds  
11 yield a higher rate than would otherwise be the case.  
12 Before this tax dividend credit was allowed, U.S.  
13 Government bonds yielded about  $\frac{1}{2}$  of 1% less than  
14 Canadian Government bonds, but now the difference  
15 has grown to about 1%.

16 If this 20% tax dividend credit was cancelled,  
17 more people would invest in Government and other  
18 bonds and mortgages which would have many beneficial  
19 results in Canada;

20 (1) Lower tax rates or higher exemptions could be  
21 allowed to all taxpayers to raise the same  
22 money, because of larger tax revenues due  
23 to the cancellation of this credit.

24 (2) Lower taxes, because of lower interest rates  
25 on Government bonds. Interest costs take  
26 a great deal of the cost of government at  
27 all levels.

28 (3) Lower costs of production because of lower  
29 interest rates on money borrowed to finance  
30 production of all kinds.







1 (4) Lower costs for home owners. Lower interest  
2 rates would enable more people to buy or build  
3 decent homes and to improve their housing  
4 conditions.

5 (5) All governments would be better able to  
6 finance the construction of public works,  
7 to increase employment during a recession.

8 The advantages to some taxpayers from the 20%  
9 tax dividend credit have recently been increased because  
10 the recent Provincial Income Tax, including the 6%  
11 Hospital Income Tax in Manitoba, is required to be  
12 based on Federal Government Income tax figures. This  
13 means that the wealthy married man mentioned above,  
14 with \$11,530.00 from dividends would pay no Provincial  
15 Hospital Income Tax, but only the annual premium  
16 of \$48.00 which all married persons must pay regard-  
17 less of their income.

18 Issue of Stock Rights

19 When a shareholder receives rights to buy stocks  
20 at below the market price, such recipient should be  
21 required to declare the gain as income, for it is just  
22 that. It is as much income to the recipient as is  
23 a stock dividend, and should not be tax free as at  
24 present. Some companies issue many such rights.  
25 Bell Telephone Company has issued rights in ten of  
26 the last fifteen years. In 1962, shareholders were  
27 given the right to purchase one share at \$39.00 for  
28 each twelve shares held. The market price of the  
29 stock on the day the rights expired were \$48.00 - a  
30 difference of \$9.00. About 2,000,000 shares were





1 purchased so that shareholders in effect received a tax  
2 free dividend of \$18,000,000.00.

3 Issue of Stock or Stock Options to Employees

4 The issue of rights or options to employees or  
5 others to buy stocks at below the market value, are  
6 earnings for such persons, just as much as any other  
7 earnings, and should be taxed accordingly, instead  
8 of the employee being allowed to pay a tax at the  
9 average rate paid by the employee during the previous  
10 three years, less 20% of the value of the benefit  
11 received. This may result in no tax being paid on  
12 such income. If the person's average rate of tax in the  
13 three years was 25%, then the tax on the gain from  
14 the exercise of rights to buy stock at less than the  
15 market value, would be at a rate of only 5%.

16 All Benefits to Employees Should be Taxable

17 If employees or proprietors receive benefits which  
18 most people pay for out of their income, such benefits  
19 should be valued and income tax paid thereon by the  
20 employees. Except when an employee is away from  
21 home, if an employer provides meals, drink, and club  
22 memberships for employees, whether or not they are  
23 entertaining business prospects, the cost should be  
24 added to the employee's income. Most of us pay for  
25 our drinks, meals and memberships out of our income  
26 and so should others. The same applies to cars which  
27 are owned by an employer and transport employees to  
28 and from their work, or cars which may be used by  
29 employees for their own pleasure driving, whether  
30 it be on short trips or long trips. Most people have





1 to pay every cent of the cost of owning a car out  
2 of their own income, and if others receive such  
3 benefits free, it should be regarded as being part  
4 of their income for income tax purposes. It would  
5 seem that benefits mentioned above are taxable today,  
6 but because many such benefits are not reported, no  
7 tax is levied in respect of same.

8 Tax-Free Allowance for Married Women.

9 In order to encourage more married women to work  
10 during World War II, a \$250.00 tax-free income  
11 allowance was instituted for married women who earn  
12 less than \$1100.00 a year. Today, with so much  
13 unemployment, we should not be giving such an incentive  
14 for married women to work. If it was abolished, some  
15 married women who don't need a job, and who now work  
16 to some extent, would stop working, and employment  
17 opportunities would increase for those men and women  
18 who need work. This tax-free income should be  
19 eliminated. It applies both to earned and investment  
20 income for tax purposes and doesn't apply to  
21 married women who earn more than \$1100.00 a year and  
22 must file a single person's tax return.

23 Exemption of Unemployment Insurance Payments

24 This exemption should be eliminated as money  
25 received from Unemployment Insurance is just as much  
26 income as is money received from an employer. If  
27 persons who receive unemployment insurance, and their  
28 spouse, if any, have a low income, they won't pay a tax  
29 in any event, or will pay at a low rate. The person  
30 who receives income for working is liable to regular





1 taxes, and a person who receives income for not  
2 working, should surely be subject to regular taxation  
3 also. Many who collect unemployment insurance are  
4 not in the lowest income group but are unemployed  
5 for only a short time, or receive a pension, or  
6 investment income, or have a husband who receives a  
7 good income from a steady job.

8 Rates of Capital Cost Allowance

9 These rates are excessive in some instances,  
10 especially for buildings. If you buy a house, office  
11 or apartment building for investment purposes, very  
12 often there is no income tax payable for a few  
13 years because of the excessive capital cost allowance  
14 deduction which has been permitted since 1949. Further-  
15 more, if the net result from rented buildings, after  
16 showing capital cost allowance as a cost, results in  
17 a loss, this loss can be offset against other income  
18 for tax purposes. Surely one shouldn't be able to  
19 use capital costs allowance in respect of a building  
20 which perhaps went up in value, as a way of reducing  
21 taxes on other income.

22 The allowance for frame buildings is 10% a year  
23 on the reducing balance. No frame building depreciates  
24 that fast. On this basis, a \$10,000.00 frame build-  
25 ing has a value for income tax purposes after ten  
26 years, of \$3,486.80. This is ridiculous. As a  
27 matter of fact, since World War II, excepting for about  
28 the last three years, there has been an almost con-  
29 tinuous increase in the value of buildings, and not a  
30 decrease in value. Furthermore, frame buildings will





1 last two-hundred years or longer if kept dry and in  
2 repair. This capital cost allowance will be  
3 recovered back when the building is sold. But this  
4 doesn't happen in some cases, for the owner holds the  
5 building until he or she dies. The capital cost  
6 allowance is not recovered, and the beneficiary starts  
7 charging off a capital cost allowance each year all  
8 over again, based on the value at date of death. In  
9 the case of the example mentioned, the value might  
10 be \$15,000.00 so that higher capital cost allowances  
11 than ever, which perhaps bear no relationship to the  
12 cost, could be deducted by the beneficiary in computing  
13 the income of the property.

14 This large capital cost allowance helps people  
15 to build up large estates. Because of the large  
16 deduction they can take off rents for income tax  
17 purposes, they can accumulate money that much faster,  
18 and buy additional buildings which in turn permit  
19 additional large amounts to be deducted as capital  
20 cost allowances, and so on. We should not be  
21 encouraging large accumulations of capital. Further-  
22 more, these owners should be paying income tax on  
23 their actual earnings. Subject to a maximum rate,  
24 cost allowance allowed, should be perhaps the capital  
25 cost allowance determined for each year by the income  
26 tax office, and in those years when buildings on the  
27 average don't go down in value, or go up in value  
28 because of inflation or other reasons, no capital cost  
29 allowance should be permitted.

30 In any event, the allowance of 10% on frame





1 buildings and 5% on brick and masonry buildings should  
2 be drastically reduced.

3 If a government wishes to encourage employment  
4 by the construction of new buildings, it might be  
5 advisable to give a high rate of capital cost allow-  
6 ance on such buildings, but there is no valid reason  
7 for allowing high rates on buildings already constructed.

8 Non-Taxable Distributions of Corporate Earnings

9 Personal income tax revenues are lost to our  
10 country each year through the distribution to tax-  
11 payers of corporate earnings which are not subject  
12 to ordinary personal income taxes. It is true that  
13 this loss is not as large as it would usually be,  
14 because of the 20% tax credit allowed on regular  
15 dividends. The recipients of such distributions should  
16 pay income tax on same, at the regular rates applicable  
17 to earned incomes.

18 The income tax act encourages a corporation to  
19 accumulate its earnings, or a portion of them, and to  
20 distribute them by the issue of non-taxable, receivable  
21 preferred shares. It is true that the corporation  
22 pays a 15% tax on such distributions, but this rate  
23 is usually considerably lower than the rate that would  
24 have been charged if the money had been taxed as earned  
25 income in the hands of those who received the income.

26 A news item in the Winnipeg Tribune of June 7th,  
27 1963, contains an example of such a distribution.  
28 The item refers to a distribution by B. C. Sugar  
29 Refinery Limited of 800,000 redeemable preferred shares  
30 of a value of \$16,000,000.00 which were issued to





1 shareholders as a tax-free dividend. Two-hundred-  
2 thousand of these \$20.00 preferred shares were  
3 redeemed in 1962, and a further 200,000 are being  
4 redeemed this year. The only portion of this year's  
5 distribution subject to tax will be 10¢ a share  
6 accrued interest.

7 This distribution by one company alone represents  
8 a large loss in taxation revenue and means that the  
9 recipients do not pay taxation on same at regular  
10 rates, applicable to those who receive their income  
11 from salaries. Furthermore, this type of tax-free  
12 distribution is of much more value to a wealthy share-  
13 holder who perhaps would ordinarily pay taxes at a  
14 50% rate, than to a poor shareholder who might have  
15 such a low income that he pays no income tax, or pays  
16 at a Federal rate which might be as low as 11%. In  
17 other words, the shareholders who are best able to pay  
18 taxes at regular rates, receive the greatest benefits,  
19 and the poor shareholder who has such a low income  
20 that it is not subject to tax, has 15% taken off the  
21 income which he would have received, and which would  
22 not have been taxable in his hands, had the income  
23 been distributed as an ordinary dividend. This  
24 system of dividend distribution is a complete negation  
25 of the idea that those with the largest incomes  
26 should pay taxes at the highest rates.

27 However, other devices have been found which  
28 enable undistributed corporate earnings of companies  
29 controlled by one or a few persons to be distributed almost  
30 free of taxation, by incorporating holding companies





1 which hold some of the stock of the company which  
2 has undistributed earnings. This can be done because  
3 generally speaking, corporate dividends paid to  
4 another corporation are not taxable.

5 Also, ordinary income taxes are not paid on  
6 unearned income distributed on the winding up of  
7 corporations.

8 The Income Tax Act should be amended to insure  
9 that undistributed earnings are taxed as nearly as  
10 possible in the same way as distributed earnings.  
11 Perhaps if there was a tax of 35% on all undistributed  
12 earnings in excess of say - 20% of dividends paid,  
13 then companies would soon distribute money earned.  
14 However, if such a change took place, provision would  
15 have to be made for off-setting losses in one year  
16 against profits in other years.

17 Returns on Disbursements of Dividends, Interest, and  
18 Payees

19 At present, companies are only required to make  
20 returns in respect of annual interest and dividend  
21 payments of \$100.00 a year or more. I suggest that  
22 this should be changed to \$10.00, to help insure that  
23 people declare all this income. Declarations are  
24 required in respect of bond interest coupons of  
25 \$3.00 or more, so surely statements should be required  
26 of larger payments. Some people have hundreds of  
27 dollars of \$50.00 bonds, so that they won't have to  
28 declare their bond interest. If people buy \$50.00  
29 bonds for this reason, then there must be many others  
30 who don't declare income because no report is made







1 in respect of same. Others have more than one  
2 bank account so that their bank interest is not  
3 reported. In the United States, reports are  
4 required on annual investment income of \$10.00 or  
5 more. Perhaps the system in the U.K. is better  
6 where a tax at a fairly high rate is deducted at  
7 source. People would likely declare all their  
8 dividends then, especially if they were entitled  
9 to a refund.

10 Today, no return is required of an employer in  
11 respect of wage payments of less than \$250.00 a year.  
12 In total unreported wages, this could result in a  
13 large sum. All wage payments should be reported by  
14 those paying same.

15 Earnings of Dependents.

16 There is a lot of difference in the income coming  
17 into a household, if a dependent son or daughter has  
18 an earned or unearned income of \$950.00 a year as  
19 compared to one who has no income. Yet in each case  
20 the parent is entitled to an income tax deduction of  
21 \$300.00 or \$550.00, depending on age of each dependent.  
22 If a dependent earns over \$950.00 and doesn't give  
23 the excess to the government, no exemption is allowed.  
24 The exemptions should be graduated - the higher the  
25 income, the lower the exemption. Perhaps the  
26 exemption might be lowered by \$300.00 if dependents  
27 income was between \$750.00 and \$950.00, and lowered  
28 by \$200.00 if dependents income was between \$550.00  
29 and \$750.00, and lowered by \$100.00 if income was  
30 between \$350.00 and \$550.00.





1     Averaging Farmers' Incomes

2             The purpose of averaging incomes is to allow  
3     a farmer to offset high incomes in some years with  
4     low incomes in others. This objective is thwarted  
5     if a farmer has such a low income from his farming  
6     operations in one year, that he works elsewhere  
7     and obtains a higher income from his other earnings.  
8     Because his principal source of income in this one  
9     year is not from farming, he cannot average his  
10    income. This should be corrected.

11    Penalties for Failure to Declare Income

12            In most cases there is no penalty, other than  
13    6% interest, for failure to declare some income.  
14    This is not a sufficient penalty having regard to  
15    the time taken by the Tax Office checking on accounts.  
16    Generally, a person loses a little and might gain  
17    considerably by not declaring income. If the penalty  
18    was the omitted tax and 50% of same and interest,  
19    then all taxpayers would be more careful to be sure  
20    that all income is declared. The person who has not  
21    declared part of his income, should certainly be  
22    penalized. Otherwise there is no incentive for him  
23    to insure that the income declared is correct.

24            Furthermore, if the department finds undeclared  
25    income, it can collect taxes on such income for only  
26    four years, except in cases of fraud. Surely there  
27    should not be a gain from breaking the law, and the  
28    very least that should be collected is the tax and  
29    interest on all undeclared income, no matter the  
30    number of years that are involved. The law-abiding





1 citizen pays his share and at least the regular  
2 tax and interest should be paid on undeclared income.

3 Estate Taxes

4 At present, some Manitoba estates have to  
5 contribute to estate tax revenues in Ontario, Quebec,  
6 and British Columbia, because the estates have stocks  
7 or bonds that can only be transferred at offices in  
8 those provinces. These extra costs and taxes are  
9 an unfair burden on Manitoba taxpayers. In equity  
10 the Federal government should be the sole collector  
11 of estate taxes as recommended by the Rowell Sirois  
12 Commission. In any event, Manitoba estates should  
13 not be required to contribute to the revenues of  
14 other provinces. It is to be noted that these  
15 provincial estate taxes do not apply to the estates  
16 of some of our wealthy people. Their securities  
17 are held in the name of a personal holding company  
18 of which all the shares but two are in the name of the  
19 person concerned, so that when he passed away, the  
20 ownership of the shares in the various investments  
21 does not change, but only the ownership of the shares  
22 in the personal Manitoba company.

23 General

24 The recommendations are made to you in the hope  
25 that they will result in a more equitable system of  
26 taxation in this country. Many will disagree with  
27 some of the recommendations, but the changes suggested  
28 are made with the idea that taxes will be levied  
29 against all Canadians on a fair basis. If the  
30 suggested changes are made, income tax revenues could





1 be maintained at their present levels, and allow  
2 increased exemptions or lower rates for all income  
3 tax payers.

4 If some of the changes are made, increased  
5 clerical work will be required in the Income Tax  
6 offices, but the increased revenues will more than  
7 offset this extra cost. However, even if costs are  
8 increased to some extent, it is important and just  
9 that taxes be paid on an equitable basis, and the  
10 implementation of these recommendations would help  
11 to bring about this result.

12  
13  
14 James Cowan

15 512 Avenue Bldg.,  
16 Winnipeg 2, Manitoba.

17  
18 July 26, 1963.  
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ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

Memorandum to the Royal Commission on Taxation  
submitted by Mr. A. T. Burstow, 353 Lindsay Street,  
Winnipeg 9, Manitoba. August 1963.

First, I would like to express my appreciation  
of being permitted to present the following brief to the  
Commission. I trust this brief reflects an objective  
view of taxation from the angle of the individual.  
Should it contain anything of a subjective nature, this  
was unintended.

First, I must acknowledge the necessity for  
government to resort to taxation as a means of providing  
citizens with the many services that our government must  
supply. There is no question that the present tax  
structure with modification could take care of future  
requirements, however, there are a few self-evident  
features of the present plan which would seem to point  
towards need for simplification.

#### PERSONAL INCOME TAX:

The present system provides for a tax on the  
personal income of individuals. In the case of those  
employed by other, this tax or at least the greater  
portion of this tax, is obtained by a method of deductions  
at source. Insofar as these deductions are made by law  
and not by voluntary action it would be fair to say that  
from the employed person's view this is really a reduction  
in salary rather than a tax. While it is true that the  
amount deducted can be varied by law, it is difficult  
to visualize that at any point will the deductions become  
unnecessary.









1           The application of this requirement of deduction  
2 at source results in each employer with-holding a portion  
3 of what might otherwise have been employees' income and  
4 remitting it to the tax collector. The employer must  
5 account to the employee for the amount deducted and must  
6 also eventually give details of such deductions to the  
7 Tax Collector, and then annually, the employee must submit  
8 a return to the Tax Collector which must be reconciled  
9 in the Collectors hands.

10           The application of the deductions at source  
11 system results in an employer paying a lump sum each  
12 month to the Tax Collector. The amount the employer  
13 pays would vary each month depending on the pattern of  
14 employment and salaries and wages paid. Insofar as there  
15 is a definite relationship between salaries and the  
16 amount paid, it could be said that this is, in fact, a  
17 pay roll tax rather than an income tax. If it were de-  
18 cided to accept this view and abolish income tax for wage  
19 and salary earners and in its place levy a tax based on  
20 the total pay roll of the employer, simplification would  
21 result.

22           Under the present system, an employee is engaged  
23 at a salary at say \$500.00 per month, but in fact after  
24 his employer has deducted the income tax relative to  
25 this salary, he receives somewhat less, for sake of  
26 discussion, let's say \$450.00. It is hardly true to say  
27 that he is being paid a salary of \$500.00 when in fact,  
28 he could never hope to receive this amount. From his  
29 standpoint, it would seem to be fair and wiser for him





1 to understand that he was receiving \$450.00 a month.. He  
2 is now exposed to the indignity of having a portion of  
3 his earnings taken from him without his direct consent.  
4 He has the responsibility of accounting to the Tax  
5 Collector annually and should he fail to do so he is sub-  
6 ject to a penalty.

7 If a pay roll tax were instituted, it could be  
8 levied in respect to the number of employees as opposed  
9 to the total pay roll. No doubt a study of past patterns  
10 would produce a table that would produce sufficient  
11 income to equal that which was received under the personal  
12 income tax system. The employer would be inclined to  
13 look upon the pay roll tax as a cost of doing business.  
14 Variations in the rate of taxation would result in an  
15 increasing or decreasing of the sale price of the goods  
16 or services in which the employer dealt.

17 I believe that the productivity of the individual  
18 would increase if his reward was directly proportionate  
19 to the work which he might do. There would be no  
20 psychological deterrents as there are when he receives  
21 less and less of his increased income under the present  
22 tax system.

23 As an alternative to the above, I believe the  
24 next best plan would be to tax the gross income of the  
25 individual at a level rate. This would create a direct  
26 ratio of tax to earnings which would be easily understood  
27 and simple to calculate. While it is true this would  
28 ignore the principle of ability to pay, perhaps the time  
29 has come when we should revise our thoughts in this





1 respect. If the gross income of all persons were taxed,  
2 the rate would no doubt be a reasonable one and each  
3 individual would be making a contribution to the  
4 treasury. At the moment we have a system of family  
5 allowances which assists those with young children.

6 In summation of this section of my brief, I  
7 would re-emphasize the idea that deductions at source  
8 be eliminated if at all possible.

9 CORPORATION INCOME TAX:

10 The present system of taxation recognizes the  
11 principle of ability to pay insofar as it taxes the  
12 profits of a corporation. This makes it necessary for  
13 the Tax Collector to have an interest in how a corporation  
14 spends its gross income. As you know, some forms of  
15 expenditure are deductible for tax purposes and others  
16 are considered not. Two similar corporations one of  
17 which is well managed and produces a profit and the other  
18 which is poorly managed and breaks even or shows a loss  
19 are treated differently insofar as the first one contri-  
20 butes something to the Tax Collector and the second does  
21 not.

22 The desire to avoid paying corporation tax can  
23 result in mergers and other manipulations that off set  
24 profits with losses. The writer contends that if the  
25 gross income was used as a basis for taxation, the Tax  
26 Collector could disregard the disposition of the balance  
27 of the corporations' income. I believe that this principle  
28 should at least be explored by those more familiar than  
29 myself with this subject and I would hope that putting  
30







1 forth the idea will result in this being done.

2           Actually the present Dominion sales tax could  
3 be amalgamated into such a plan and economies of  
4 collection, etc. could be effected. Taxation based on  
5 gross income would leave less room for dissension between  
6 the Collector and the tax payer and would eliminate many  
7 decisions that must be made by the tax board and the  
8 courts under our present system.

9   Respectfully submitted,

10    (Signed) A. T. Burstow  
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ANGUS. STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

A

BRIEF

TO THE

ROYAL COMMISSION ON TAXATION

\* \* \* \* \*

submitted by

THE CANADIAN FEDERATION OF GOVERNMENT EMPLOYEE

ORGANIZATIONS

May, 1963







1. The Officers of the Canadian Federation of Government Employee Organizations, a Federation of Provincial Civil Service Associations, have directed that there be submitted to the Commission a Brief concerning:

A. INCOME TAX

B. ESTATES TAX

\* \* \* \* \*

2. The presumption in a democratic society is that everyone should know the law. This, of course, is absurd. It is factual that in the areas of both Income Tax and Estates Tax, the only part of the law known to the vast majority of people is that they must file an Income Tax form no later than April 30, or be penalized, and pay the tax or be penalized. They know less concerning Estates Tax, believing in most cases that it is a tax to soak the rich.

3. In actuality the laws concerning Income Tax and Estates Tax are known to a very limited number of specialists in the fields of taxation law and accountancy. Particularly is this true of the Estates Tax.

4. The Federation believes it is imperative that Laws which affect the earnings and savings of family units should make more adequate provision for protecting the interests of the family unit more realistically than presently exists in both these taxation fields.





1 A.

2 INCOME TAX

3 5. It is a well-known fact that the wage and  
4 salary rates of public employees always lag behind  
5 rates existing in the private sector. The main  
6 reason for this condition is that public employees  
7 generally do not have collective bargaining rights  
8 which are granted and protected by law in the  
9 private sector. They are reduced to collective  
10 "begging" in an attempt to have their wage and  
11 salary rates determined on the basis of "fair  
12 comparison."

13 6. It is the belief of the Federation that the  
14 rapid increase in living costs without correspond-  
15 ing increases, in too many instances, of pay levels  
16 is reducing far too many family units to the bare  
17 subsistence level. The "little man," (and in  
18 the public services of Canada there are a hundred  
19 thousand or more "little men,") needs relief from  
20 a heavy burden. One method of providing this  
21 relief is to cease confiscating his bread and  
22 butter money, and increase his Income Tax basic  
23 exemption from \$1,000 to \$1,500 single and from  
24 \$2,000 to \$3,000 married.

25 B.

26 ESTATES TAX

27 7. In the opinion of the Federation the  
28 confiscatory aspects of Estates Tax Law are  
29 shocking. It is realized that the principles  
30 underlying death duties are, firstly to prevent







7. (Contd.) - Estates Tax.

the accumulation of excessive wealth in the hands of a few, and, secondly to provide revenue.

8. It would appear that the concept in Estates' Tax Law that family units of moderate means are accumulating excessive wealth, whereas in most instances this wealth consists of a home, probably mortgaged, life insurance and a pension equity.

9. The struggle of the average family unit to provide protection and security is being frustrated by confiscatory taxes.

10. In its struggle to gain reasonable and earned security, the family unit can purchase in many instances, group (term) insurance in fairly substantial amounts, quite often in the amount of double the father's annual pay if he has dependent children. Such policies are owned by the father, and in case of his death the value of the policy is included in the estate. If perchance the wife could purchase this policy the value of the policy is not included in the estate even if the husband during his lifetime paid the premium. The thinking behind such a regulation is difficult to understand.

11. The family unit through the father, and generally by payroll deduction and often as a condition of employment, contributes to a pension fund. Upon the husband's decease if the widow receives a pension, the capitalized value of the pension is calculated and this value is included in the value of the estate. As an example:





11. (Contd.) - Estates Tax.

a deceased's widow who is age 65 will receive a pension of \$250 per month for life commencing one month after the death of the deceased. Value is  $\$250 \times 12 \times (9.72295 + .45833) = \$30,543.84$ .

This when added to life insurance, property and this includes home furnishings can often throw the estate of people of moderate means into the taxable bracket.

12. Surely cases like this cannot be considered to be in the accumulation of excessive wealth category.

13. The Federation submits that the reasonable and earned security in far too many Canadian family units is being unduly frustrated and recommends that the basic tax exemption be raised to \$75,000.

This would appear to be quite realistic in our inflationary economy. Further it is submitted that the principle of equality in the marriage partnership is being violated and the widow is suffering discrimination. For tax purposes, one-half of the estate of the deceased marriage partner should be considered as being owned by the surviving partner. There, of course, should be statutory limits in this regard in the matter of very large estates.

H. B. Hunter

May, 1963

National Secretary



ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

Summary of Submission

by the

HOTEL ASSOCIATION OF CANADA

to the

ROYAL COMMISSION ON TAXATION

\* \* \* \* \*

1. Membership and Constitution -  
Hotel Association of Canada
2. Unfair Competition to Hotels.
  - (a) Tax exempt clubs and their  
"business ventures"
  - (b) Steady growth in post-war years -  
clubs of all kinds.
3. Municipal Taxation
  - (a) Recommendations of the Municipal  
Enquiry Commission of Manitoba
4. United States Internal Revenue Service, and  
their treatment of tax exempt organizations.
5. New construction in private clubs
  - (a) Indirect benefits to members
  - (b) Freedom from tax on recaptured  
depreciation
6. Recommendations and conclusions
  - (a) Detailed annual reports from all clubs
  - (b) Limitation on advertising and solicitation
  - (c) Amendments to the Income Tax Act







HOTEL ASSOCIATION OF CANADA

SUBMISSION TO

THE ROYAL COMMISSION ON TAXATION

August, 1963

1. The Hotel Association of Canada's membership encompasses all Provincial Hotel Associations. Each member of a Provincial Hotel Association in turn becomes a member of the Hotel Association of Canada. In consequence, well over three thousand hotels across Canada constitute the true membership of the Hotel Association of Canada.
2. In its Constitution, the Hotel Association of Canada clearly sets out as two of its objects, the following:  
"To deal particularly with matters which come within the jurisdiction of the Federal Authorities."  
"To take whatever action may be deemed desirable or necessary to protect the rights and interests of the hotel industry."
3. It is our firm belief that our submission today to the Royal Commission on Taxation is justified if we are to meet the terms of reference of our Constitution.
4. It is the consensus of every Provincial Hotel Association in all provinces of Canada that in certain fields the practice of infringement on hotel operations by tax exempt clubs and organizations is quite common.
5. An organization is granted certain tax privileges or







1 tax exemptions on the assumption that it is not engaging  
2 in business activities but is organized for a specific  
3 and non-business purpose. If after obtaining such tax  
4 concessions, the establishment deviates from the purpose  
5 for which it was organized and engages in business activi-  
6 ties, we suggest that it well should lose this exemption  
7 for these "unrelated business activities".

8 5. Services advertised by these clubs indicate that a  
9 "business venture" is being carried on. The forms of  
10 advertising presented by many of the clubs is, in our  
11 opinion, a breach of the Income Tax Act, Section 62,  
12 "Will not carry on any business". The advertising media  
13 employed appears to indicate that such enterprises are  
14 carrying on a business, namely that of catering to and  
15 entertaining other than members of the Club.

16 7. It appears to the Hotel Association of Canada unusual  
17 and unnecessary that nineteen years after the last war  
18 there are still new veterans clubs being built and being  
19 licensed in many Canadian provinces.

20 8. Because of the relaxation of liquor laws across  
21 Canada in the past decade or so, many sporting clubs,  
22 private and fraternal clubs and veterans clubs have  
23 expanded their facilities and in many cases, opened the  
24 doors to the general public for use of club facilities.  
25 Invariably one or more banquet rooms are available for  
26 "renting out" to other than member groups.

27 9. Daily newspapers carry accounts of weddings, Bingo,  
28 receptions, etc., held in these clubrooms. In other  
29 cases, curling clubs and golf courses cater weekly to  
30





1 service club luncheons and other group business, on a  
2 scale which is of increasing concern to the Hotel Associ-  
3 ation of Canada. In short, the original intent and pur-  
4 pose of the club's organization is lost to profit making  
5 business practices.

6 10. In February of 1963 the report of the Municipal  
7 Enquiry Commission in Manitoba made specific references  
8 to areas of potential revenue within municipal control  
9 which have heretofore been by-passed by these local  
10 governments. The recommendations put forward by this  
11 Commission indicated a clear-cut awareness that certain  
12 organizations were escaping their obligations to pay  
13 their fair share of municipal taxes, especially when it  
14 was evident that most of these organizations were 'carry-  
15 ing on a business" at a profit.

16 11. With many Provincial Governments now actively inter-  
17 ested and participating in personal and corporation income  
18 tax fields, they as well as the Federal Government, are  
19 overlooking what we suggest are lucrative fields of  
20 additional tax revenues.

21 12. Is it fair, we ask, that a hotel which pays business,  
22 realty and income taxes, having equally attractive facili-  
23 ties, but which is situated close by a private and  
24 fraternal club, a sporting club or a veterans organization,  
25 is compelled to compete for "group" business or business  
26 from the public at large, on such unequal terms? Is it  
27 fair that in many clubs of this nature, a growing source  
28 of revenue is obtained by catering to the public simply  
29 because a member of this club happens to be a member of  
30





1 the outside group being catered to?  
2 13. In the United States not so long ago, steps were  
3 taken to control this unfair competition. In that country  
4 there is no specific law which prohibits tax exempt  
5 establishments from competing with tax-paying business  
6 organizations. The key however, lies in the tax laws.  
7 An organization is granted an exemption from Federal  
8 Income Tax on the assumption that it is not engaging in  
9 business activities, but is organized for a specific  
10 and non-business purpose, such as a charitable or edu-  
11 cational corporation, a fraternal organization, a social  
12 club or a trade association.  
13 14. If, after obtaining such tax exemption, the estab-  
14 lishment goes out of its chosen field and engages in  
15 business activities, it may well lose its exemption from  
16 income tax but there is no law to stop it if it wishes to  
17 take that risk. The Hotel Association of Canada has no  
18 complaint against an organization engaging in a business  
19 activity if it is paying income tax upon the profits of  
20 such activity. It would then be placed on exactly the  
21 same competitive basis as the hotels are today.  
22 15. The Internal Revenue Service of the United States  
23 Government points out rather specifically the responsi-  
24 bility of a tax free club. It states in part, "where an  
25 organization makes its facilities available to the  
26 general public or to outside groups on a regular recurring  
27 basis for the purpose of obtaining funds to benefit its  
28 members by minimizing dues and fees, enlarging its  
29 facilities or otherwise, its exempt status will be





jeopardized". Further to this, all tax exempt social clubs, veterans organizations, etc., are required to file an annual information return to the Internal Revenue Service. They have recently gone one step further and have provided public access to tax exempt organizations declaratory forms. All charitable, educational, scientific, religious and similar groups including charitable foundations, are required under a new form No. 990-A, which will require for the first time such data as officers salaries and investments, political or lobbying activities, accumulations of capital gains and other income, dealings and relations with contributors, costs of raising funds, etc. After allowing for processing in district offices, copies of the executed forms will be open to the public in Washington.

16. It is our contention that the Income Tax Department of Canada could take a very close look at what has happened in the United States insofar as the tax exempt privileges of clubs is concerned.

17. It is no secret that in many clubs the membership contributions and spending within the club premises alone could not substantiate or maintain such elaborate establishments as we have in the "club" field. It is only by catering to outside group business and to the public at large that mortgage indebtedness can be reduced in a short time and renovations of these new buildings paid for out of current earnings.

18. We are aware that older club buildings and equipment can and are sold at an enhanced value above their original







1 cost. Because the organization is outside the Income  
2 Tax Act, no tax is collected on recaptured depreciation.  
3 Hotel operations however, fall within the Income Tax Act  
4 and tax is calculated and collected on recaptured depreci-  
5 ation. This factor as well, adds further distress to the  
6 Canadian hotel industry under such unfair competitive  
7 conditions.

8 19. With respect to this whole field of unfair competi-  
9 tion, the Hotel Association of Canada recommends that all  
10 non-profit and tax exempt organizations, clubs and  
11 associations, should be incorporated under the Companies  
12 Act of their respective provinces or the Federal Companies  
13 Act. An annual report would or should be required from  
14 the Secretary of the applicable organization to be filed  
15 with the Provincial Secretary or with the Secretary of  
16 State, as applicable. The form should be devised in  
17 such a manner whereby details of the source of all  
18 revenues, the disbursement of any revenues, the state of  
19 surpluses and real assets, could be readily determined.

20 20. We strongly recommend that all advertising or  
21 solicitation by such tax exempt organizations be confined  
22 to soliciting member support only to the patronage of  
23 that specific organization.

24 21. We respectfully submit to the Royal Commission on  
25 Taxation that in light of the foregoing, amendments  
26 should be made to the Income Tax Act. These amendments  
27 would serve to include under the Income Tax Act such  
28 organizations as are now exempt, but who are "carrying on  
29 a business" in direct competition with hotels throughout  
30 Canada.



1        RESPONSIBILITY ACCOUNTING FOR INCOME TAX REVENUE

2        A brief to the Royal Commission on Taxtion.

3        INTRODUCTION

4                The income tax, as presently used in Canada,  
5        seemingly serves two quite different objectives. One  
6        objective is to raise revenue. The other objective is to  
7        act as a tool by which governmental policies, both social  
8        and economic, may be implemented. The theme of this brief  
9        is that while both objectives are valid and necessary they  
10       should be given formal recognition as two quite distinct  
11       aspects of income taxation. The proposal is that:

- 12        1) The tax revenues for which the government should  
13                be held accountable should be the tax based on  
14                what might be called "income for tax purposes".  
15        2) Deductions allowed the taxpayer from the basic  
16                income tax should be accounted for as government  
17                expenditures.

18        THE PROPOSAL

19                It is widely recognized that the present income  
20        tax is not in fact a tax on income. It is a tax on tax-  
21        able income. It is proposed that taxpayers be required to  
22        compute their income tax based on their income rather  
23        than on any arbitrarily defined taxable income. This  
24        proposal is not particularly concerned with how "income  
25        for tax purposes" is defined except that it should be  
26        unbiased by governmental policies whether economic or  
27        social. Broadly this would mean that "income for tax  
28        purposes" should approximate the net income of business  
29        firms and the gross earnings of individuals. The tax  
30        revenue of the government should be measured by the income







1 tax on "income for tax purposes".

2 This is not to deny the government its right to  
3 use the income tax as a means of implementing economic  
4 or social policies. Any deductions from the income tax  
5 allowed to taxpayers should be accounted for as government  
6 expenditures. It may seem strange to require an account-  
7 ing for revenues not received. <sup>1</sup>

- 
- 9 1. The argument that opportunity costs cannot be recor-  
10 ded in any formal way because they "will generally  
11 depend on the alternative use of the resources at the  
12 time of the decision" does not apply. Revenue fore-  
13 gone by a specific decision not to receive it can be  
14 measured. See Harold Biermen, Topic in Cost Account-  
15 ing and Decisions, New York, McGraw Hill, 1963, p. 9.
- 

17 It is submitted that the effects of such imputed  
18 expenditures on the finances of our country are of cri-  
19 tical importance both for government planning and for  
20 evaluation of governmental policies.

21 ADVANTAGES OF THE PROPOSAL

22 Information for Planning

23 In planning income tax revisions and in evalua-  
24 ting policies which are to be implemented by means of the  
25 income tax it is necessary to estimate the effect which  
26 the proposed change will have on revenue.

27 In some areas it is possible to make such es-  
28 timates based on the records available. In other areas  
29 the estimates can be prepared only with difficulty. In  
30 other areas the information necessary may not be available





1 in any form. If the proposed information concerning the  
2 "revenue lost cost" of existing policies were available  
3 planning would be facilitated. For example, if the  
4 government were considering withdrawing the deduction for  
5 percentage depletion in the oil industry, it might well  
6 require information concerning the increase in net tax  
7 revenue which would result.

#### 8 Information for the Public

9 A democratic government should be prepared to  
10 report to its citizens in terms of the revenues which it  
11 receives and the expenditures which it makes. This is  
12 already done. An extension of the stewardship aspect of  
13 reporting would require the government to report in terms  
14 of the revenue which it did not receive because of deduc-  
15 tions allowed to certain categories of taxpayers for cer-  
16 tain specified reasons. Note that this is not a request  
17 for a report of all foregone revenue. Such a report  
18 would be infinitely long. It is a request for a report  
19 of the cost to society of exemptions and deductions granted  
20 to some taxpayers and not to others. A more widespread  
21 awareness of the number of special deductions and the  
22 financial magnitude of them might result in the withdrawal  
23 of some of them. The withdrawal of special deductions  
24 would result in a broader net tax revenue base and would  
25 permit lower tax rates.

#### 26 DIFFICULTIES

##### 27 Responsibility for Defining "Net Income"

28 The obvious difficulty is that of defining "net  
29 income" on which to levy the income tax. In essence the  
30 proposal suggests that "net income" be defined without







1 reference to political or social considerations. Perhaps  
2 an independent board of economists and accountants should  
3 be assigned the task.<sup>2</sup>

4 Differences Between "Income for Tax Purposes" and "Business  
5 Income"

6           The definition of "income for tax purposes" may  
7 differ from so called "business income" for reasons of  
8 administrative convenience. The present mode of calcula-  
9 ting capital cost allowances is an example of what might  
10 be termed an administrative convenience. There is no  
11 particular objection to such administrative conveniences  
12 provided the aggregate "income subject to tax" over the  
13 life of the taxpayer does not vary significantly from his  
14 true income.

15 Expenses and Special Deductions

16           It is not easy to segregate expenses, which  
17 should be allowed in determining "income subject to tax,"  
18 from deductions allowed the taxpayer in calculating the  
19 amount which he must remit to the government.

20           Items such as the tax free period granted mining  
21 companies are clearly in the category of deductions. What  
22 are the medical expenditures of an individual? It may be  
23 argued that medical expenditures by a wage earner are, at  
24 least indirectly, related to the earnings he receives  
25 since some portion of the expenditures is essential if  
26 his earnings are to continue and are, therefore, expenses.  
27 On the other hand the medical expenditures for members of  
28 the wage earner's family are associated with his personal  
29 marital status and domestic situation and are unrelated to  
30 his activities as a wage earner and are, therefore, not





1 expenses. It is not the purpose of this brief to dwell  
2 on the detailed application of the distinction but rather  
3 to point out the significance of the distinction.

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5 2. Changing Concepts of Business Income, Report of Study  
6 Group on Business Income, New York, Macmillan, 1952  
7 presents the findings of a group assigned the task of  
8 considering the concept of "business income". While  
9 the study group was not essentially concerned with  
10 taxation the approach which they employed is relevant.

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12 FLEXIBILITY

13 The proposal while conceptually difficult would  
14 not necessarily be difficult to administer. A crude  
15 application would require only that the existing act and  
16 regulations clearly distinguish between those provisions  
17 relating to determining "income for tax purposes" (re-  
18 venue and expenses) and those relating to determining  
19 "amount to be remitted" (deductions). The tax returns  
20 forms would need to be revised to distinguish more clearly  
21 the deductions in terms of the revenue foregone as a  
22 result of each deduction.

23 At a later stage amendments aimed at correcting  
24 inequities or errors in defining "income for tax purposes"  
25 could be introduced. The first stage would require, for  
26 example, a decision that the exemption of co-operatives  
27 from income tax is a deduction rather than an indication  
28 that such entities do not produce income. At this second  
29 stage it would be necessary to define the "income for tax  
30 purposes" of co-operatives so that the magnitude of the





1 deduction would be measured more accurately.

2 Subsequent stages might be concerned with the  
3 calculation of deductions. The present method of allowing  
4 what are in effect deductions, results in them being all-  
5 owed at approximately the marginal rate of tax.

6 It may be quite appropriate to allow some deduc-  
7 tions as an absolute amount. Rather than allow all in-  
8 dividuals a basic deduction of \$1,000 in arriving at  
9 taxable income, as is done at the present, it might be  
10 preferable to allow all individuals a deduction of \$150  
11 from their income tax. Notice that when progressive tax  
12 rates are used a change to absolute deductions tends to  
13 make the tax more progressive.

14 Conversely it may be quite appropriate to allow  
15 some deductions in terms of a calculation at the marginal  
16 tax rate. If public policy warranted encouragement of  
17 charitable giving this could be done by allowing a deduc-  
18 tion equal to the charitable donations made times the  
19 individuals marginal rate of tax.

20 The middle ground between these two extremes  
21 would be to allow some deductions in terms of a calcula-  
22 tion using the taxpayers average tax rate.

### 23 SUMMARY

24 This brief is presented by an individual. It  
25 does not present the special interests of any group,  
26 association or organization. Consequently there has been  
27 no particular attempt to justify the proposal. The pro-  
28 posal is made to the commission in the belief that the  
29 commission is seeking ideas which might be incorporated  
30 into a thorough revision not simply of the income tax act





1 but of our approach to taxation. It is my belief that the  
2 proposal would result in the type of tax and the type of  
3 taxation information which is more in keeping with a demo-  
4 cratic responsible government.

5           The proposal might be called responsibility  
6 accounting for income tax revenue.. It seeks to distin-  
7 guish more clearly between those aspects of net income tax  
8 revenue for which the government is directly responsible  
9 and those for which it is not directly responsible.

10       1. Income tax should be calculated on a measure of in-  
11 come which is not subject to manipulation for poli-  
12 tical, economic or social objectives. The only  
13 direct control the government would have over the  
14 income tax revenue so determined would be by means of  
15 varying the tax rates.

16       2. The amount actually paid to the government by a tax-  
17 payer may be less than or more than the income tax  
18 calculated on income. The difference between income  
19 tax revenue and net tax receipts should be fully  
20 accounted for as expenditures. The government has  
21 full control over such deductions. It may increase  
22 or decrease them. It may allow more deduction, it  
23 may discontinue deductions. The government should  
24 be prepared to report the revenue effect of all such  
25 deductions because it may be held directly respons-  
26 ible for them.

27           If the commission is interested in the proposals  
28 advanced, I would be happy to elaborate upon them.

29                               Respectfully submitted,

30       Aug. 14, 1963       Daniel McDonald

# ROYAL COMMISSION

ON

# TAXATION

## HEARINGS

HELD AT

WINNIPEG  
MAN.

VOLUME No.:

DATE:

46A AUG. 28, 1963  
BRIEF

OFFICIAL REPORTERS  
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11 ADELAIDE ST., W.  
TORONTO

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ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

1  
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4 UNITED GRAIN GROWERS LIMITED

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6 PRESENTATION TO THE

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9 ROYAL COMMISSION ON TAXATION

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14 RELATING TO THE TREATMENT

15 OF DIVIDENDS ON CAPITAL

16 STOCK IN TAXATION OF

17 CORPORATIONS

18  
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21 FOR HEARING AT WINNIPEG, APRIL 1963  
22  
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1 To the Chairman and Members,  
2 Royal Commission on Taxation,  
3 Ottawa.  
4 Gentlemen:

5 1. This submission is made on behalf of United  
6 Grain Growers Limited.

7 2. For such reference as may be required a state-  
8 ment descriptive of this Company is attached hereto as  
9 Appendix A, while also appended are the latest annual  
10 report and pamphlets containing Act of Incorporation and  
11 by-laws.

12 3. Here it is sufficient to say that this is a  
13 farmer-owned Company with more than fifty thousand members  
14 handling grain through 780 elevators at 614 points in  
15 the Prairie Provinces and through terminal elevators at  
16 Port Arthur and Vancouver. It has various ancillary  
17 enterprises, some conducted through subsidiary companies.  
18 It is the oldest such Company, now in its 57th year, so  
19 that its experience as a taxpayer covers the entire  
20 period during which there has been a Canadian tax on  
21 corporate income. Not only has it paid such tax during  
22 for as long a period as any Canadian company; its total  
23 payments, which amount to some millions of dollars must  
24 have been larger than the average for Canadian taxpayers.  
25 Consequently, it has ample experience on which to draw  
26 in making a recommendation to your Commission. Such  
27 experience, as will be shown, supports the following  
28 recommendation relative to the treatment of dividends  
29 on share capital in the taxation of corporations.

30 4 It is our submission that, subject to some





possible limitation, cash dividends on share capital should be deductible in calculating taxable income, as is the case with interest paid, under a legal obligation, on borrowed money.

5. The purpose of this suggestion is not to reduce the amount of revenue which accrues to the Government from taxation. Rather it is to provide a method of assessing taxes which will give better economic results than the present method produces.

6. Two major improvements are contemplated. One is a greater employment by Canadian corporations of share capital for expansion, with lessened reliance upon debt and on retained earnings for that purpose.

7. The other is an increased pay-out of earnings of Canadian corporations so that share owners may have an incentive to remain shareholders, instead of selling out when they can do so at a profit. The selling out process frequently involves transfer of Canadian industry from Canadian to non-Canadian ownership, a matter of special concern to your Commission under the terms of your report.

#### Precedents

8. There are various precedents applicable in some degree to this suggestion as follows:

- (a) Interest is a deductible item in computing income, under Section 11 (1)(c) of the Act provided it is paid pursuant to a legal obligation to pay, and the borrowed money on which it is paid is used to earn income. A share capital dividend corresponds to







1 such interest in that it is paid in respect  
2 to money used to earn income. It also  
3 corresponds in that it is paid in fulfill-  
4 ment of a prospect held forth at an earlier  
5 date without which prospect the capital  
6 would not have been available, nor the  
7 intended income earned.

8 The differences between the two payments  
9 and whether or not these warrant a  
10 difference in tax treatment will be dis-  
11 cussed below.

12 (b) In the United Kingdom, the Income Tax law  
13 places no burden upon a corporation in  
14 respect of profits paid out in dividends  
15 on capital stock. The corporation in  
16 respect of such amounts is not a taxpayer  
17 but a tax collector. It remits to the  
18 Treasury for the account of shareholders  
19 amounts for which they would be liable if  
20 taxable at a standard rate. Subsequent  
21 adjustment may or may not be in order when  
22 a shareholder makes his tax return. (See  
23 Volume III of Report on Royal Commission  
24 on Transportation, p. 548, in paper by  
25 A. K. Eaton). Procedure is analogous to  
26 Canadian practice of withholding income tax  
27 at source on wages and salaries.

28 (c) Differential rates of taxation are said to  
29 apply in some countries as between amounts  
30 paid out in dividends and those retained





1 by a corporation. The Commission will  
2 learn from its research into tax systems  
3 of other countries if such is actually the  
4 case. In any event such differential rates  
5 have been advocated in North America with  
6 the purpose of encouraging or forcing dis-  
7 tribution of corporate earnings.

8 (d) In the Income Tax Act of Canada, deduction  
9 is provided in Section 75 for "payments  
10 made, pursuant to allocations in proportion  
11 to patronage."

12 (e) An individual taxpayer in Canada is allowed  
13 to deduct from tax payable 20% of  
14 dividends received from taxable Canadian  
15 corporations.

16 (f) Exploration and development expenses and  
17 depletion allowances are deductible in  
18 calculating taxable income of mining  
19 companies and oil and gas companies.

20 (g) The problem presented herein has already,  
21 to some extent, been discussed under  
22 sponsorship of the Canadian Tax Foundation.  
23 In "The Taxation of Corporate Income in  
24 Canada", publication of which was sponsored  
25 by that body, the author, Dr. J. Richards  
26 Petrie, says (p. 170) "One must wish that  
27 corporate enterprise were less dependent  
28 upon internal funds for expansion, and that  
29 share capital could be the most important  
30 source of funds for corporate expansion.





The first step towards the achievement of this end should be reform of the federal tax system by removing the tax discrimination between bond interest and dividends."

#### Effect of Present Tax Law

9. Present Canadian Tax law tends to limit the issue of capital stock by Canadian corporations and to enlarge corporate debt. That effect is to be expected since what the corporation pays in interest to creditors is deductible in calculating income for tax purposes and what it pays to shareholders is not. There is also a tendency to keep a corporation from seeking outside capital for expansion, and to rely for growth on funds generated by its own operations and not distributed to shareholders. An example of the first mentioned effect is found in the experience of United Grain Growers Limited described below.

#### A Case Study

10. Since the end of World War II, this Company has greatly enlarged and improved its elevator system. In 1946, it operated 524 country elevators; the combined capacity of its country and terminal elevators was 34 million bushels. In 1962, it operated 745 country elevators; the capacity of its whole elevator system was 68.7 million bushels. Expansion during that time meant an increase in investment in capital assets from \$12 million to \$40 million. (Figures and quotations from annual reports.)

11. In part that increase in capital assets was financed by an increase in paid up capital. For





1 \$3 million to \$4.8 million, or 60 per cent. But the  
2 increase in funded and other long term debt was \$11  
3 million, more than five fold, from \$2 million to \$13  
4 million. (Figures and quotations from annual reports.)  
5 12. This resort to debt financing was not origin-  
6 ally intended. When the Company first embarked on its  
7 program of enlarging and improving its elevator system,  
8 a considerable reliance on capital stock was contemplated.  
9 The following is extracted from the annual report of  
10 1947: (Figures and quotations from annual reports).

11 "Although, according to its charter, the  
12 authorized capital of United Grain Growers  
13 Limited is \$5,000,000, the present issued  
14 and paid-up capital amounts to \$3,085,095.  
15 That amount of capital has been sufficient  
16 in the past and it is nearly twenty years  
17 since the Company sought to increase it ...  
18 More capital investment is required to  
19 sustain a continuing program of improving  
20 elevator facilities and for expansion in  
21 building new elevators. Your Board believes  
22 that the money for such purposes should as  
23 far as possible be obtained from the farmers  
24 to be served, and dependence upon borrowed  
25 funds thereby reduced."

26 13. The report also forecast a plan for making  
27 patronage dividends payable in shares. In 1948, it  
28 was recorded that new shares had been rapidly taken up  
29 when it was known that they were available. Reference  
30 was made to "a considerable number of new points, at







1 which it is desirable to sell shares, both for the  
2 purpose of establishing locals and to give customers a  
3 financial interest in the Company." (Figures and quota-  
4 tions from annual reports.)

5 14. By 1949 paid-up capital stock had increased  
6 to \$4 million. (Figures and quotations from annual  
7 reports). The Directors sought and obtained authority  
8 from the annual meeting for amendment to the Company's  
9 Parliamentary Charter, increasing authorized capital  
10 from \$5 million to \$7.5 million. While Parliament  
11 granted the increase it has not been used. Enlargement  
12 of paid-up capital was halted after close of the 1952  
13 fiscal year, at which time it had grown by \$1.8 million.

14 15. The impact of income tax brought about this  
15 change from shares to loans as a source of capital. It  
16 is one thing to finance a new elevator out of borrowed  
17 money; the interest is a deductible expense. It is  
18 another thing to finance it out of new share capital;  
19 dividends are not deductible and have to come out of  
20 earnings after taxes are paid. It took \$90,000 annually  
21 to pay the Company's usual 5 per cent dividend on the  
22 new share capital. But to make that available the new  
23 capital would have to earn \$180,000 before income tax.  
24 Instead of issuing more shares the Directors decided  
25 to rely on borrowing. During the ten years following  
26 1952 the Company's outstanding first mortgage bonds,  
27 as required by trust deed were reduced by \$2 million.  
28 But issues of other debt instruments were increased by  
29 \$7.6 million, making a net increase of \$5.6 million in  
30 long term debt.





1 A Field for Enquiry

2 16. While the evidence this Company can give is  
3 limited to its own experience, the foregoing suggests a  
4 field for enquiry as this Commission considers the tax  
5 laws in relation to the ownership of Canadian industry.

6 17. There has been much concern in Canada as to  
7 extent of control of this country's industry exercised  
8 by non-residents. It is sometimes alleged that Canadians  
9 form a community of conservative and cautious people  
10 determined to protect its savings from all risks, con-  
11 serving them in banks, in insurance policies and in  
12 government bonds, content to leave adventure and enter-  
13 prise to the invading foreigner. The record of the  
14 stock markets is to the contrary; it indicates that the  
15 Canadian investor has not only been willing but has been  
16 eager to participate in industrial enterprises.

17 18. A scarcity of shares for investment purposes is  
18 by prices lately prevailing. For example, in mid-  
19 January, 1963, a financial paper reported that 114  
20 common stocks were priced on Canadian markets to yield  
21 an average of 4.36%. Yields on some industrial shares  
22 were as low as 3% or even less. This was at a time when  
23 the investor could obtain 5 1/2% for his money on  
24 provincial or municipal bonds (Financial Post, Jan. 19,  
25 1963)

26 19. There has been comment by investment dealers  
27 on "the problem of adequate supply of stocks to meet the  
28 rising demand by institutional accounts," on the  
29 "imbalance" between the demand for and the supply of  
30 shares, and on the "scarcity of equities."





1 20. It must be admitted that recurrent rights to  
2 buy additional shares have been issued to shareholders  
3 in chartered banks and in certain regulated public  
4 utilities. As to the former it may be that more share  
5 capital was an imperative need for banks as a condition  
6 of growth. As to the latter it may be that the tax  
7 situation does not affect public utilities when the  
8 regulatory authority includes income tax as an expense  
9 which must be covered by the rates allowed. As to other  
10 industries enquiry may show that new issued of share  
11 capital and the expectation of such have been limited on  
12 account of the tax situation. If so, that could adver-  
13 sely affect Canadian ownership of Canadian industry.

14 (a) by limiting opportunities to invest therein,

15 (b) by limiting expectations as to future  
16 benefits and developing a willingness to  
17 dispose of shares,

18 (c) by restricting the number of persons  
19 sharing control, which might thus be more  
20 easily acquired by others,

21 (d) by affecting the attitude of the owner.

22 If earnings have to be retained for  
23 corporate purposes, the benefits of owner-  
24 ship will not be found in prospects of  
25 future income. They will be sought  
26 instead in profitable selling so the  
27 owner instead of being a tenacious share-  
28 holder is an expectant seller. Such a  
29 one will respond readily to a bid for  
30 control from outside interests.





1 Two Pertinent Instances

2 21. Since your Commission was appointed, share-  
3 holders of two outstanding Canadian companies have sold  
4 their shares to interests controlled outside of Canada.  
5 The two transactions involved close to \$200 million.  
6 It will concern you to enquire if, had tax laws been  
7 differently formulated, these shareholders might have  
8 been encouraged to continue their ownership of the  
9 industries in question. Published newspaper statements  
10 relevant to these transactions are enlightening.

11 22. An article in the Financial Post of January  
12 19, 1963 described one of these companies as "Canada's  
13 leading producer of stainless, tool and alloy steels."  
14 The article continued as follows:

15 "Stainless steel markets are generally high-  
16 priced small-volume custom markets....  
17 Company's over-all sales have doubled during  
18 the last six years to a peak of \$57.8 million  
19 in 1961 (\$50,350,000 during Jan-Sept./62).  
20 Stake in export markets has expanded sub-  
21 stantially during recent years, and has been  
22 averaging approximately 25% of total".

23 23. Evidently this is an admirable and well  
24 managed enterprise of which the former owners might  
25 well have been proud, but which they nevertheless sold.  
26 Published accounts indicate that shareholders had been  
27 receiving regular annual dividends of \$1.00 per share,  
28 commencing with 1956, and an extra 25 cents per share  
29 except in 1957 and 1958. Earnings per share, commencing  
30 with 1956 were published at \$3.92; \$2.04; \$2.04;







1 \$3.02; \$2.77; \$2.45. Evidently a considerable portion  
2 of earnings was retained for growth. This was also  
3 indicated by published balance sheet which showed  
4 "Earnings retained in the business: at \$24,670,780."  
5 It was further shown by statement that company would be  
6 regarded by the Tax Department as having undistributed  
7 income on hand equivalent to \$14 per share, to be treated  
8 as a dividend included in the payment to be made to  
9 shareholders. It would have taken more than ten years  
10 for shareholders to receive that sum in dividends de-  
11 clared at former rates.

12 24. The Company had issued \$20 million 5% and  
13 5 1/2% bonds in April, 1962. It may be supposed that,  
14 although shareholders had had some previous opportunities  
15 to buy new issues of shares, they would not be expecting,  
16 in the near future, further opportunities to do so.

17 25. It is not surprising that shareholders accepted  
18 an offer of approximately \$37.00 per share for their  
19 shares.

20 26. The other company was described as an important  
21 fully integrated oil company engaged in the production,  
22 refining and marketing of petroleum and petroleum  
23 products across Canada. Newspapers said that sales of  
24 finished products in 1961 amounted to over \$92 million.  
25 Its net worth per common share was reported to have  
26 risen from \$16.40 at the end of 1955 to \$24.65 at the  
27 end of 1961, or by \$8.25. Dividends on common shares  
28 paid for the same six years amounted to \$4.60, having  
29 been at an annual rate of 80 cents per share for five  
30 years.





1 27. An offer to purchase the company for \$114  
2 million, equivalent to \$39 per share was rejected by  
3 the Directors. A subsequent offer to buy shares was  
4 recommended by the Directors and accepted by most  
5 shareholders. This offer, reported as equivalent to  
6 \$56 per share included \$52.50 cash. It will be seen  
7 that shareholders had been receiving slightly over 3%  
8 on the reported net worth of their shares, equivalent to  
9 about 1 1/2% of the selling price. Their willingness  
10 to sell is not to be wondered at.

11 28. In each of these cases question arises as to  
12 what might have encouraged former owners to retain  
13 instead of disposing of their interest. Your Commission  
14 will perhaps conclude that prospect of a greater dis-  
15 tribution of dividends might have done so and that such  
16 prospect would have been possible if dividends on  
17 capital stock had been deductible in calculating income  
18 for taxation purposes.

19 One Question Answered

20 29. Your Commission is charged in paragraph (3)  
21 of its remit to consider and report upon

22 "The means whereby the tax laws can best  
23 be formulated to encourage Canadian ownership  
24 of Canadian industry without discouraging the  
25 flow of investment funds into Canada."

26 30. One means of accomplishing that end is  
27 suggested by the foregoing. Make it attractive to retain  
28 instead of to sell shares in Canadian industry.  
29 Associate the reward of ownership with future income and  
30 future opportunity for investment rather than with the





1 market value of shares. Do so by formulating tax laws  
2 which will encourage corporations to pay out more of  
3 their earnings in dividends than at present.  
4 Encourage them to issue share capital for purposes of  
5 expansion instead of bonds and debentures. Make that  
6 encouragement rest upon deductibility, at least to some  
7 extent, of dividends on share capital in calculating  
8 income for tax purposes.

9 This Not a Plea for Tax Reduction

10 31. There is no purpose herein to argue for lower  
11 taxes, the volume of which must be determined by the  
12 needs of government. Nor does this presentation join  
13 in the argument that government should take less than it  
14 now claims of money earned by corporations. That  
15 argument will come to your attention. You will have  
16 occasion to examine the theory, frequently advanced,  
17 that the Canadian economy would be stimulated by a  
18 somewhat less drastic taxation of corporate income than  
19 now prevails. Your conclusions will be based, not only  
20 on representations made to you, but also on research  
21 which you direct. We refrain from that discussion and  
22 from discussing possible alternative taxes which you  
23 will doubtless consider.

24 32. Our submission is that when such a reduction  
25 occurs it should be applied by first making dividends  
26 deductible. This would be to give priority to lowering  
27 taxable income as compared to lowering the rate of tax.  
28 Whatever the share of earnings of corporations to be  
29 taken by the government, it will be best collected by  
30 a system which recognizes as a necessary expense, and





1 consequently deductible in calculating taxable income,  
2 some return to shareholders on the capital they supply.

3 Double Taxation Not in Issue

4 33. The purpose and the scope of this suggestion  
5 are completely different from those of the dividend tax  
6 credit to individual taxpayers now embodied in Canadian  
7 tax legislation. When first introduced in 1949, at a  
8 lower rate than at present, that credit was described  
9 as intended to lessen the impact of double taxation of  
10 corporate income. The benefits it provides are to  
11 individual taxpayers as such, lightening their burdens,  
12 and mitigating what otherwise might be regarded as  
13 injustice from double taxation or from high rates. The  
14 dividend credit does not influence the activities of  
15 corporations and does not stimulate industrial growth.

16 34. In contrast, the present proposal is not  
17 concerned with double taxation or with inequities to  
18 individuals. It is designed to operate at the corporate  
19 level and to affect corporate financing and corporate  
20 growth for the general good. It is broad in scope,  
21 applying to and benefiting a corporation as a whole,  
22 and not limited to that segment of its income paid out  
23 to individuals resident in Canada. Neither the dividend  
24 credits nor the plan now proposed is to be described as  
25 imposing a cost upon the national revenue, since what  
26 is not collected in one way must be obtained in another,  
27 through other taxes or through higher rates.

28 Allowance for Cost of Share Capital

29 35. The proposal of this submission has been  
30 presented as a matter of expediency. It can also be







1 considered as a matter of principle. A corporation is  
2 taxed as a person, earning income and incurring expense  
3 in doing so. It is allowed to deduct the expense in  
4 calculating income for taxation purposes. To conduct  
5 its business and to earn income it must employ capital.  
6 The cost of capital, the return by way of income to  
7 those who supply capital, is recognized by the Act as a  
8 deductible expense, but only when paid as interest under  
9 a legal obligation to pay. Dividends on share capital,  
10 at least to some reasonable extent, can also be seen  
11 as a cost of capital, recovery of which is prerequisite  
12 to making a profit. That cost cannot be less than the  
13 minimum expectation of return held by the shareholder  
14 when he invests his money in share capital. Unless a  
15 corporation's earnings are such as to make possible a  
16 reasonable return on capital the corporation is not  
17 meeting its costs nor making a profit. Thus, before  
18 arriving at taxable income of a corporation it is  
19 reasonable to allow deduction of at least a moderate  
20 provision for the cost of share capital.

21 36. There is an analogy between such allowance and  
22 allowances to a taxpayer on capital cost of depreciable  
23 property employed in a business. The Act recognizes  
24 that a corporation is not making a profit unless its  
25 operations recover such cost. The Act makes such cost  
26 deductible, by a series of instalments, in calculating  
27 income.

28 Possible Limitations on Deductibility

29 37. Once there is recognized as sound the principle  
30 of deductibility of dividends on share capital there





1 has to be considered how far it can be applied, in the  
2 light of revenue needs. That is because so large a part  
3 of the country's revenue is now obtained by taxing  
4 corporate income. If that impost is to be lightened it  
5 can only be as corresponding revenue is obtained from  
6 other forms of taxation. Your Commission will be study-  
7 ing what to recommend in that connection. If that is not  
8 sufficient to offset complete deductibility, some  
9 limitation on the principle may be appropriate.  
10 Alternative devices for limitation are suggested below,  
11 which could be compared in the light of information  
12 available to the Commission.

13 (a) Limit deductibility to dividends paid to  
14 residents of Canada. This would not  
15 inflict any hardships on the non-resident  
16 shareholder in a Canadian corporation. His  
17 dividend would not be affected nor would  
18 the Company in which he had invested be  
19 subject to more taxes than at present.  
20 But an incentive would be provided for  
21 corporations to promote ownership of their  
22 shares by Canadians and when new capital  
23 is required to seek it in Canada.

24 (b) Limit deductibility to an amount not exceed-  
25 ing a rate on capital employed as defined  
26 in the Excess Profits Tax Act. The rate  
27 would have to be low, since that definition  
28 capitalizes retained earnings.

29 (c) Limit deductibility to an amount not exceed-  
30 ing a modest rate, say six per cent, on





1 actual cash heretofore or hereafter  
2 received by a corporation in exchange for  
3 its capital stock. Such cash consideration  
4 judging from "Taxation Statistics" issued  
5 by the Department of National Revenue  
6 would be much less in total than half the  
7 total of capital employed as mentioned in  
8 the preceding paragraph. Limitation to a  
9 return on actual cash received would make  
10 deductibility of dividends on share capital  
11 correspond closely to the deductibility  
12 which now applies to interest paid under  
13 a legal obligation to pay. This limitation  
14 could if necessary be applied in conjunction  
15 with the geographical limitation outlined  
16 in paragraph (a) above.

17 38. It may seem unduly restrictive of deductibility  
18 to exclude from the calculation shares issued for  
19 consideration other than cash or to exclude the capital-  
20 ization of retained earnings. But such exclusion will  
21 be justified if necessary to prevent deductibility from  
22 occasioning too great a loss of revenue.

23  
24  
25  
26  
27 Louis Driscoll

A. M. Runciman

28 General Manager

President

29 Winnipeg

30 February 27, 1963





APPENDIX A

United Grain Growers Limited is the oldest farmer owned company doing business in Western Canada. It is principally engaged in handling grain. For that purpose it owns and operates some 780 country elevators, widely distributed in the prairie provinces. These elevators, and associated annexes have a capacity of over 55 million bushels. At Port Arthur it owns and operates a terminal elevator with capacity of 78,250,000 bushels and a smaller one with a capacity of 1,500,000. At Vancouver it has for many years operated under lease from the National Harbours Board a terminal elevator with present capacity of 3,600,000 bushels.

Originally incorporated in 1906 in Manitoba, as the Grain Growers' Grain Company Limited it is now chartered by Special Act of Parliament. It was a direct outgrowth of the farmers' movement of the early years of this century. It represented the first effort of that movement to improve the position of the western farmer under the difficult conditions of pioneer life on the prairies by directly entering the commercial field of marketing and handling grain.

The Company acts as agent for the Canadian Wheat Board in receiving and making initial payment on wheat, oats and barley. It buys other grain on its own account and also handles and stores grain in its elevators at rates authorized by the Board of Grain Commissioners for Canada.

The Company manufactures livestock feeds, combining grain and other ingredients. It sells farm







1 supplies to a value of some millions of dollars annually.  
2 These include in addition to feeds, agricultural chemicals,  
3 fertilizer, coal, twine and other items. Through a  
4 subsidiary company it operates an insurance agency busin-  
5 ess. Through another subsidiary company it prints and  
6 publishes "The Country Guide", a national farm magazine  
7 reaching 325,000 homes across Canada and another monthly  
8 publication, and also conducts a general printing  
9 business.

10 Paid up capital stock of \$4,819,000 is divided  
11 into two classes of shares; Class "A" shares, with a  
12 par value of \$20 each and Class "B" shares with a par  
13 value of \$5.00 each. Voting members are organized into  
14 Locals and each of some 300 Locals elects a delegate  
15 to annual and other general meetings, each holder of  
16 a Class "B" share being entitled to one vote only in  
17 the Local to which he is attached. Class "A" shares  
18 are non-voting, non-cumulative redeemable shares  
19 carrying the right to an annual dividend, to the extent  
20 earned, of 5% before other dividends are paid.

21 Following figures are extracted from the last  
22 annual report, for fiscal year ended July 31, 1962:

23	Total country and terminal	68,750,000
24	elevator capacity	bushels
25	Increase in total elevator	35,000,000
26	capacity since 1947	bushels
27	Paid up capital stock	\$ 4,819,000
28	Total Shareholders' Equity	\$12,217,000
29	Fixed Assets at Cost	\$39,962,000
30	Working Capital	\$ 6,422,000





ANGUS. STONEHOUSE & CO. LTD.  
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Funded and Other long

Term Debt

\$13,100,625

Annual Report for 1962 is attached and also  
pamphlets containing Charter and By-laws.



ANGUS. STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

- 1 -

1  
2 UNITED GRAIN GROWERS LIMITED  
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5

6 SUPPLEMENTARY  
7 PRESENTATION TO THE  
8  
9

10 ROYAL COMMISSION  
11 ON TAXATION  
12  
13  
14

15 CONTAINING ADDITIONAL MATERIAL  
16 RELATING TO THE TREATMENT OF  
17 DIVIDENDS ON CAPITAL STOCK IN THE  
18 TAXATION OF CORPORATIONS  
19  
20

21 FOR HEARING AT WINNIPEG, AUGUST 28, 1963  
22 ALONG WITH MAIN PRESENTATION WHICH WAS  
23 ORIGINALLY FILED FOR HEARING IN APRIL, 1963  
24  
25  
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1 To the Chairman and Members,  
2 Royal Commission on Taxation,  
3 Ottawa.

4 Gentlemen:

5 1. The main presentation of United Grain Growers  
6 Limited to the Royal Commission on Taxation, now  
7 scheduled for hearing at Winnipeg on August 28, 1963  
8 was filed before the end of February. At that time  
9 there had not been published a Report by the Special  
10 Committee on Corporate Taxation which had been made  
11 to the Minister of Finance on March 21, 1961. That  
12 report has recently been made available both to the  
13 Royal Commission and to the general public. Some  
14 comment is desirable in relation to recommendations  
15 of United Grain Growers Limited.

16 2. The report of the Special Committee includes the  
17 following

18 As an incentive to certain Canadian taxable  
19 corporations to distribute their earnings  
20 to Canadian resident shareholders, a special  
21 tax abatement shall be allowed to such a  
22 corporation equal to a percentage of Can-  
23 adian Dividends paid by it to them out of  
24 its earnings subsequent to December 31, 1961,  
25 (excluding Canadian Dividends and exempt  
26 income received and dividends or other  
27 distributions received under the transitional  
28 provisions). The rate of abatement shall  
29 be reviewed annually, with a suggested rate  
30 of 10% for 1961.







1 3, It is thus evident that two principles are  
2 common to the recommendations of the Special Committee  
3 and those of this Company, as follows:

4 (i) Different tax treatment of a corporation  
5 in respect of amounts retained from  
6 earnings and amounts paid in dividends  
7 to shareholders.

8 (ii) Different tax treatment of a corporation  
9 in respect of dividends paid to shareholders  
10 who are Canadian residents and those who  
11 are not.

12 4. Perhaps the second principle needs no further  
13 advocacy, since it has already been recognized by  
14 the Government of Canada in application of the  
15 withholding tax on dividends paid to non-residents.

16 5. But the first principle was applied to only a  
17 limited extent by the Special Committee. The tax  
18 abatement it suggested, to start at ten per cent  
19 of dividends paid to Canadian resident shareholders  
20 would amount to much less than would applying this  
21 Company's suggestion to make such dividends deductible  
22 in calculating taxable income. This fact is explained  
23 by examining the Special Committee's terms of reference,  
24 which were much more limited than those of this Royal  
25 Commission. The Special Committee went as far as  
26 it could. We cannot say that it would have gone further  
27 if not so restricted. But we can say that this  
28 Commission is quite free on the one hand to note the  
29 Special Committee's endorsement of the principle, and  
30 on the other hand to ignore the limited application





1 5. of it made by the Committee.

2 6. The Special Committee's terms of reference,  
3 as set out in Order-in-Council P.C. 1960-13 56  
4 were related to

5 "the taxation, as personal income or  
6 otherwise, of amounts that are  
7 distributed or available for dist-  
8 ribution out of the earnings of  
9 corporations"

10 as to which it was to

11 "recommend changes which may achieve  
12 greater simplicity and overcome any  
13 anomalies, difficulties or deficiencies  
14 it finds in the present law without  
15 substantial loss of revenue."

16 7. The recommendations arrived at by the Special  
17 Committee under these instructions related mainly  
18 to the taxation of individuals on dividend income  
19 received from corporations, a matter with which  
20 the submission of this Company has not been concerned.  
21 Only to a limited extent did the Special Committee  
22 deal with taxation imposed on corporations themselves.  
23 That was inevitable. Any recommendation which  
24 would substantially reduce tax revenues arising from  
25 the earnings of corporations was barred by the terms  
26 of reference. It was not open to the Special  
27 Committee to suggest another tax in substitution for  
28 that now imposed on corporations.

29 8. The Government did not adopt the recommendations  
30 actually made by the Special Committee. Instead it





1 8. appointed this Royal Commission, presumably  
2 recognizing that both much broader terms of  
3 reference and longer time than had been given the  
4 Special Committee were required for adequate treatment  
5 of tax problems.

6 9. Your Commission thus has scope as the Special  
7 Committee did not have to recommend in accord with  
8 this Company's submission should you see fit.

9 10. Some reference by this Company is desirable  
10 to the recommendations made by Mr. Capon, for  
11 abolishing the corporation tax and instituting a  
12 tax on retained earnings. Should the Government  
13 follow Mr. Capon's idea, there would be neither  
14 room nor opportunity to apply the more limited  
15 proposals put forward by United Grain Growers  
16 Limited.

17 11. However, should your Commission recommend  
18 Mr. Capon's proposals it would still be desirable,  
19 we submit, for you to deal favourably with what we  
20 have put forward. To do so will be to allow for  
21 possible failure of Mr. Capon's proposals to be  
22 acceptable to the Government. Conceivably that  
23 might occur for political reasons, based on questions  
24 of public opinion, for administrative reasons, based  
25 on the convenience of the corporation tax as a  
26 collecting device, or for international reasons,  
27 based on the danger of exposing Canadian shareholders  
28 in foreign companies to retaliatory treatment.

29 12. To say this is not to attempt evaluation or  
30 criticism of Mr. Capon's proposals. It is merely





1 12. to stress this fact that our own are quite  
2 different, both in principle and in detail, both  
3 in purpose and in extent.  
4  
5  
6

7 ..... (Signed) .....A.M. Bunciman....  
8 General Manager President.

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21 Winnipeg  
22 August 12, 1963.  
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TORONTO, ONTARIO

THE NORTH-WEST LINE ELEVATORS ASSOCIATION

Mr. G. L. Bennett,  
Secretary,  
Royal Commission on Taxation,  
P.O. Box 466,  
Ottawa, Ontario.

Dear Mr. Bennett:

Further to our letter of August 7th in reply to yours of July 26th in which you request that the Association either supply the Commission with certain additional information prior to the Hearing in Winnipeg on August 28th, or else that the representatives of the Association be prepared to discuss the points raised in your letter at this last mentioned Hearing:

QUESTIONS RAISED BY ROYAL COMMISSION AND ASSOCIATION'S

REPLIES THERETO:

1. A detailed description of the grain handling and storage business in the Prairies, including such features as how the farmers decide where to store their grain, how and when they are paid for their grain, etc.

A note of the principal functions of both grain handling companies - Line and Co-op - and The Canadian Wheat Board is set out in the Association's Submission (Pages 6 - 12).

The actual mechanics of grain delivery and storage might be described as follows:

Delivery and Payment

(a) All Grains

Every farmer is at liberty to deal with any









1 company he chooses according to his personal preference.  
2 However, under Wheat Board regulations each farmer must  
3 signify his intention of delivering his grain to any  
4 elevator located at one particular station. At most  
5 delivery points there are, of course, several elevators  
6 belonging to different companies, each company competing  
7 one with the other. Generally, but not invariably, a  
8 farmer will elect to transact his grain business at the  
9 delivery point nearest to his farm.

10 When the farmer brings in a load of grain to an  
11 elevator, the agent in charge weighs the grain, grades it  
12 and assesses the dockage (foreign material, chaff, etc.)  
13 contained in the load. The farmer then has the opportunity  
14 of either,

- 15 (i) accepting the agent's assessment of the  
16 quality of the grain;  
17 (ii) refusing to accept the agent's assessment  
18 and delivering the grain to another competing  
19 company; or  
20 (iii) having the grain "special binned" in the  
21 elevator so that a sample can be sent to  
22 one of the Board of Grain Commissioners'  
23 grading stations for determination of grade  
24 which, when established, is either accepted  
25 as the correct grade by the farmer or he  
26 exercises his privilege of shipping a  
27 special bin car if he has a car lot.

28 It is naturally in the interests of elevator  
29 companies to handle, and as a result store, as much  
30 grain as possible. Companies compete, one with another,





1 both in grading and dockage and in efficiency of service  
2 so that they may attract as high a proportion of deliver-  
3 ies as possible to their elevators.

4 (b) Wheat, Oats and Barley

5 In the case of wheat, oats and barley, the  
6 handling companies - Line and Co-op - buy these grains  
7 on behalf of The Canadian Wheat Board which is charged  
8 by statute with the responsibility of buying and ultimate-  
9 ly disposing of their grains. When the Wheat Board is  
10 able to assess the price realized on the grain delivered  
11 to it in any particular pooling period, it makes one or  
12 more additional payments to farmers representing the  
13 difference between the initial price paid the farmer and  
14 the price it realized from its sales, less all expenses  
15 of operation. At the beginning of each crop year the  
16 Board establishes, and informs handling companies - Line  
17 and Co-op - of, the initial prices it will pay for the  
18 various grades of these grains. When the grain is de-  
19 livered and the producer accepts the elevator agent's  
20 grade, he is issued a negotiable "cash purchase ticket"  
21 in the amount of the price of his grain less various  
22 deductions. These deductions consist in the case of  
23 wheat, of the freight charge on the grain from the point  
24 of delivery to the nearer of the Lakehead or Vancouver  
25 (other grains are bought on a basis in-store Lakehead),  
26 and in the case of all grains, the per bushel handling  
27 and service charge, and such other deductions as elevator  
28 companies may be required by law or are entitled to deduct  
29 from the proceeds of grain deliveries.





1 (c) Other Grains

2 In the case of purchase of grains other than  
3 wheat, oats and barley, such as rye, flax, rapeseed,  
4 etc., the grains may be, and in the vast majority of  
5 cases are, bought outright by the companies whether Line  
6 or Co-op. The Wheat Board does not participate in the  
7 sales of these grains. The price paid by a handling  
8 company in respect of these grains is determined by pre-  
9 vailing open market prices. Normal practice is for a  
10 Company to hedge its purchase of these grains as soon as  
11 possible after the purchase is consummated. This it does  
12 by entering into a contract for the future delivery of  
13 the grain it has purchased, on the Winnipeg Grain Exchange.  
14 The special situation under which rapeseed may be "pooled"  
15 for the account of producers desiring this service has  
16 already been dealt with in the Association's main sub-  
17 mission. Payment is again usually made by way of a cash  
18 purchase ticket. In the case of these grains (except  
19 pooled rapeseed), the price received by the farmer is the  
20 final price.

21 Storage of Grain in Country Elevators

22 (a) Wheat, Oats and Barley

23 As has been mentioned these three grains are  
24 handled by all Line and Co-op elevator companies for the  
25 account of The Canadian Wheat Board in accordance with  
26 the uniform Agreement, negotiated annually with the  
27 Board. A specimen of this Agreement has been supplied to  
28 the Commission. In terms of this Agreement, companies  
29 store the grain they receive from producers in their  
30 country elevators until such time as the grain is ordered







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1 out to terminals, mills or elsewhere. Somewhat com-  
2 plicated arrangements exist between the Board and handling  
3 companies to determine the quantities of grain they may  
4 or must ship from their country elevators from time to  
5 time. Apart from sales made locally or to mills, etc.,  
6 companies ship grain forward to their terminals in accor-  
7 dance with Wheat Board instructions. The handling com-  
8 pany is held responsible by the Wheat Board for the grade  
9 and safekeeping of the grain. Companies are obliged to  
10 account to the Wheat Board, as nearly as possible for the  
11 same quantity and grade of grain they bought for the  
12 latter's account. A company must bear the loss which  
13 results from incorrect grading of any lot of grain. The  
14 company itself, carries the risk of the grain going out  
15 of condition through heating, etc., and insures it at its  
16 own expense, against fire.

17 The initial payment to producers from the  
18 Wheat Board is advanced by companies - Line and Co-op -  
19 on behalf of the Board, and the financing is done on the  
20 security of the grain they hold in store.

21 (b) Other Grains

22 In the case of rye, flax, rapeseed, etc.  
23 (except in the case of pooled rapeseed, which was dealt  
24 with in the main submission), the price a company obtains  
25 in selling a lot of grain for future delivery in the  
26 market reflects the length of time the company will have  
27 to store that grain prior to delivery. Thus, grain sold  
28 for delivery at a date six months" distant would command  
29 a higher price than grain sold for immediate delivery, in  
30 a situation where supply remained, or was expected to





1 remain, stable. In the event that a grain was in short  
2 supply at the time of sale but the shortage was expected  
3 to disappear prior to the date of delivery, the future  
4 price might actually be lower than the price for a spot  
5 sale. In such a situation a handling company - Line or  
6 Co-op - would earn no revenue from storing the grain and  
7 indeed would obviously try to place it in a marketable  
8 position as soon as possible. Here also the responsi-  
9 bility for maintaining the grade of the grain rests with  
10 the handling company.

#### 11 Terminal Operations

##### 12 (a) Wheat, Oats and Barley

13 Most of the companies operating country eleva-  
14 tors also own or control terminal elevators at the Lake-  
15 head and Vancouver or both, and all companies consign  
16 the grain purchased in their country elevators to the  
17 terminal or terminals with which they are associated. At  
18 the terminal the wheat, oats and barley bought and held  
19 for the Board is unloaded and Warehouse Receipts are  
20 issued to the Board. The latter document represents  
21 title to the grain and the Board completes a sale of  
22 grain by delivery of a Warehouse Receipt or a Lake  
23 Shippers' transfer (the Lake Shippers' Clearance Associa-  
24 tion is an organization run for the joint benefit of  
25 shippers and purchasers of grain and acts as a depository  
26 and clearing house of Warehouse Receipts), covering the  
27 appropriate quantity and grade of grain to the buyer.  
28 The buyer then is entitled to take delivery of the grain  
29 from the terminal on payment of the tariffs set for all  
30 companies - Line and Co-op - by the Board of Grain





1 accept Canadian certificates of grade with-  
2 out question.

3 The Canadian Wheat Board's function is that of  
4 a pooling and sales agency.

5  
6 2. Statistics concerning the operations of the "line"  
7 companies comparable to those given for the "pool"  
8 companies.

9  
10 The statistics available to us are contained  
11 in our Brief.

12  
13 3. Specific examples of cases where business has been  
14 lost to the co-operative companies, and the reason  
15 for that loss of business.

16  
17 In the grain industry, business is lost as and  
18 when grain deliveries by individual producers are diver-  
19 ted. Loss of business by the Line Companies to the Co-ops  
20 represents a steady erosion, the reasons for which are  
21 outlined in our Brief.

22  
23 4. The effect, if any, which the implementation of your  
24 recommendations would have on the operating methods  
25 of the co-operative companies.

26  
27 The Co-operative Companies have demonstrated  
28 that they are successful operating companies and managed  
29 by capable executives, therefore we cannot see that the  
30 implementation of our recommendations would affect them  
any more than the incidence of existing heavy taxation





1 Commissioners. These charges consist of a per bushel  
2 elevation charge for receiving the grain, cleaning it,  
3 elevating it, storing it for five days and insuring it  
4 against fire and explosion, and storage charges based on  
5 a rate of a fraction of a cent per bushel per day.

6 (b) Other Grains

7 At their terminals, all companies perform  
8 exactly the same service in respect of these grains as  
9 they do for the Wheat Board grains.

10 (c) All Grains

11 As will be seen, the volume of grain passing  
12 through a terminal and hence the level of a Line or  
13 Co-op company's earnings therefrom, is governed by the  
14 volume of grain a company handles through its country  
15 elevators.

16 The Board of Grain Commissioners and The Canadian Wheat  
17 Board

18 In the above brief summary, mention has been  
19 made of the Board of Grain Commissioners. Some doubt  
20 arises in the minds of the public as to the distinction  
21 between the role of this body and that of The Canadian  
22 Wheat Board. The former

23 (a) carries out a regulatory function in the  
24 grain industry akin to that performed by  
25 Board of Transport Commissioners for the  
26 railway industry, and

27 (b) provides a grading service under a system  
28 of government-controlled grades based upon  
29 strictly detailed specifications which is  
30 the reason all buyers, domestic and foreign,







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1 affects us.

2

3 5. Would you be willing to say that the alleged superior  
4 competitive position of the "pool" companies would be  
5 removed if dividends of all corporations were per-  
6 mitted as deductions from corporate taxable income?

7

8 While our Members would no doubt be happy to  
9 escape corporate taxation, we feel that under conditions  
10 as they exist any such solution would be subject to  
11 criticism as short sighted and not in the best interests  
12 of the country as a whole.

13

14 6. Is it possible to give meaningful comparisons between  
15 the Line companies and the "pools" of the relative  
16 importance of retained earnings in the two types of  
17 organizations?

18

19 Retained earnings, irrespective of the nature  
20 of the corporation - that is whether private enterprise  
21 or co-operative enterprise - are the same and used for  
22 the same purpose.

23

Yours very truly,

24

Cecil Lamont  
President

25

26

27

28

29

30



1 ROYAL COMMISSION ON TAXATION

AUG. 8 1963

2 Brief on ... TAXATION OF BUSINESS

3 Inequalities in the taxation of Incorporations as compared

4 to Partnerships and/or Proprietorships.

5 Taxation in the application of capital to business

6 An inequality in the tax considerations, to the  
7 application of capital to business results from the pre-  
8 sent corporation tax laws. Particularly in the field of  
9 smaller businesses, the operation of a business as a pro-  
10 prietorship, or as a partnership gets no tax consideration  
11 on the investment of capital in the business. In distinc-  
12 tion to this the business conducted as a company, receives  
13 a preferential tax rate of 21% on the first \$35,000.00  
14 net earnings per year.

15 To illustrate ... Three businesses each engaged  
16 in the same occupation and each earning the same gross  
17 and net income for the owner:

	<u>Net Income</u>	<u>Tax</u>
18 A. Proprietorship .....	\$50,000.00	\$21,000.00
19 (total net income taxes in hands of proprietor)		
20 B. Partnership ... (1 Partner) ..	\$50,000.00	\$21,000.00
21 (2 Partners)	\$50,000.00	\$17,140.00
		(\$8,570 x 2)
22 C. Incorporation .....	\$50,000.00	\$11,420.00
23 (1 shareholder	\$15,000.00	4,070.00)
24 (Company	\$35,000.00	7,350.00)

25 From the same business, conducted by the same  
26 people and earning the same net income. The business  
27 which is incorporated has a tax advantage in the applica-  
28 tion of investment capital to its affairs of \$9,580.00 in  
29 this one year. When one multiplies this over several  
30 years operation, the hardship on the unincorporated busi-  
ness is apparent. Since the principle of double taxation







1 remedies this inequality on income distributed as dividends  
2 the area for concern and remedy, is in the corporation  
3 income which is reinvested in plant and equipment, or  
4 subsidiary investments. In this area of finance, the  
5 partnership and the proprietorship are at distinct dis-  
6 advantages. Since the tax relief is for consideration of  
7 capital invested by the business, it would seem that con-  
8 sideration should be given to non incorporated business  
9 as well as incorporated.

10 When one further considers that there are certain  
11 classes of business which the Minister has steadfastly  
12 refused to recognize as having any right to incorporating,  
13 the injustice becomes the more glaring....

14 If one considers the question of capital invest-  
15 ment in the above example, assuming the individual in  
16 each case is drawing for personal use, \$11,000.00 (tax  
17 paid) and further assuming that the capital investment  
18 in plant and equipment for the Business is \$100,000.00 ...

19 A. Proprietorship \$50,000.00 Less \$21,000.00 Tax  
20 Less \$11,000.00 Personal Use

21 \$32,000.00  
(Leaving \$18,000.00 for capital investment)

22 B. Partnership \$50,000.00 Less \$21,000.00 Tax  
23 (1 partner) Less \$11,000.00 Personal Use

24 \$32,000.00  
(Leaving \$18,000.00 for capital investment)

25 2 partner \$50,000.00 Less \$17,140.00 Tax  
26 Less \$22,000.00 Personal Use

27 \$39,140.00  
(Leaving \$10,860.00 for capital investment)

28 C. Incorporation \$50,000.00 Less \$4,070.00 Indiv. Tax  
29 \$7,350.00 Company Tax  
Less

30 \$11,420.00 Total Tax  
Less 11,000.00 Personal  
\$22,420.00 Use





1 C. Incorporation - (cont'd)

2 (Leaving \$27,580.00 for capital investment)

3 Applying these figures to the total business  
4 investment of \$100,000.00 the time required for the  
5 business to earn the necessary tax paid capital to pay  
6 this amount (excluding interest costs) would be ....

7 A. Proprietorship	<u>\$100,000.00</u>	
	\$ 18,000.00	(Approx. 5.5 years)
8 B. Partnership (1)	<u>\$100,000.00</u>	
9	\$ 18,000.00	(Approx. 5.5 years)
10 (2)	<u>\$100,000.00</u>	
11	\$ 10,860.00	(Approx. 9 years)
12 C. Incorporation	<u>\$100,000.00</u>	
	\$ 27,580.00	(Approx. 3.6 years)

13 The injustice of this discrepancy could be  
14 remedied in one of several ways.

15 1...Removal of Corporation Tax Laws, with a substitution  
16 of a capital investment tax relief to be applicable to  
17 all business

18 2...Continuation of the present Corporation Tax Laws, but  
19 with provisions for their extension in some fashion to  
20 business conducted as a proprietorship or a partnership

21 3...Removal of the restraints against the application  
22 and use of corporations and corporation tax laws by the  
23 classes of business which at present are not allowed.

24 L. C. Kindree B.A. M.D. L.  
25 Squamish B.C.

26

27

28

29

30

# ROYAL COMMISSION

ON

## TAXATION

### HEARINGS

HELD AT

WINNIPEG

MAN.

VOLUME No.:

DATE:

47A

AUG. 29, 1963

BRIEF

#### OFFICIAL REPORTERS

ANGUS, STONEHOUSE & CO. LTD.

BOARD OF TRADE BLDG.

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- 1 -

Not to be released before  
9:30 A.M. August 29, 1963

A Brief to  
The Royal Commission on Taxation  
from

Clarence Wyle Barber  
Professor of Economics  
University of Manitoba







1. Rather than attempt to cover all the topics included in the Commission's terms of reference I propose to confine myself to the area of fiscal policy and within this area to a few major points. The first of these concerns budgetary policy and the form and presentation of the federal budget.
2. In my view the federal budget should be presented in the context of a national budget that would show for Canada as a whole a forecast or projection of expenditures in each final expenditure area and would compare these expenditures with an estimate of the output the economy is capable of producing at low levels of unemployment and with reasonable rates of economic growth. The deficit or surplus in the federal budget and the level of government expenditure should then be planned in terms of what would be needed to equalize expected expenditures and potential output, thus at least attempting to ensure that the economy will realize the output it is capable of achieving. Only in terms of such a framework is it possible to make an informed appraisal of the government's budgetary proposals.
3. This does not imply that the government should rely on fiscal policy alone to achieve its policy goals. For within a national budgetary presentation it is possible to indicate the degree to which the government proposes to rely





- 1 3. on monetary, fiscal and other policy weapons  
2 to achieve these goals. The most widely  
3 accepted primary goals are, of course, a low  
4 level of unemployment, an adequate rate of  
5 economic growth and reasonable stability of  
6 prices.
- 7 4. It is implicit in this approach that the  
8 question of whether the government has a deficit  
9 or a surplus as such is unimportant. The  
10 appropriateness of the deficit or surplus can  
11 only be judged in terms of what is required  
12 to bring expected expenditures and potential  
13 output into balance. In some circumstances,  
14 a low level of unemployment may only be  
15 attainable if the government is prepared to  
16 run a substantial deficit. In other circum-  
17 stances, a large surplus may be needed to  
18 reduce inflationary pressures or to minimize  
19 the country's dependence on foreign borrowing.  
20 When private capital spending is at a high level  
21 it is usually possible for the government to  
22 plan for a substantial surplus without the  
23 risk of dampening significantly the growth of  
24 output and employment. But if business capital  
25 spending is weak, a large deficit may be needed  
26 to obtain a high level of employment.
- 27 5. Adherence to the national budgeting approach  
28 need not imply large and growing deficits.  
29 Indeed, taking the post World War II period as  
30 a whole the federal government failed as often







1 5. to plan for a large enough surplus as it did to  
2 plan for a large enough deficit. For example,  
3 in 1956, at a time when business capital  
4 spending amounted to more than 25 percent of  
5 gross national product, the Minister of Finance  
6 announced minor tax reductions and planned  
7 for a surplus of only \$113 million. Yet at  
8 the time the budget was introduced the govern-  
9 ment knew that its own forecast of capital  
10 spending indicated a 21 percent increase over  
11 the previous year. In the circumstances,  
12 the economy could easily have supported a  
13 surplus of \$400 or \$500 million. In contrast,  
14 by the first quarter of 1963, business capital  
15 spending had fallen to about 17.5 percent of  
16 gross national product, little more than two-  
17 thirds of the size of the capital spending  
18 program that was underway in 1956, yet we find  
19 the government budgeting for higher taxes and  
20 a reduction in the size of the deficit. Mr.  
21 Gordon has stated that it is the present  
22 government's policy to plan for a budget that  
23 will come into balance under conditions of full  
24 employment. But given the low level to which  
25 business capital spending has now fallen, the  
26 economy may have very little chance of achieving  
27 full employment unless the government plans for  
28 a larger deficit. And until the economy gets  
29 back closer to a capacity level of output it  
30 may be difficult to obtain a higher level of





- 1 5. capital spending. Indeed, the best way of  
2 creating circumstances where a balanced budget  
3 or a moderate surplus would be appropriate may  
4 be to plan now for a much larger deficit.
- 5 6. Not only is there a need in Canada for more  
6 emphasis on a national budgeting approach  
7 but there is also a need for greater under-  
8 standing of the different ways in which the  
9 federal budget, itself, can be presented. I  
10 would like to distinguish here between three  
11 different budgetary concepts, namely, the  
12 regular administrative budget, the cash budget  
13 and the national income or national accounts  
14 budget. Of these three the administrative  
15 budget which is regularly presented to  
16 parliament is the most incomplete. For it  
17 excludes various borrowing and lending activities  
18 of the federal government and a number of  
19 extra-budgetary funds such as the old age  
20 security fund and the unemployment insurance  
21 fund.

22 The cash budget differs from the administrat-  
23 ive budget in that it includes various borrowing  
24 and lending activities of the federal government  
25 such as advances to the Central Mortgage and  
26 Housing Corporation and funds arising out of  
27 the purchase or sale of foreign exchange. The  
28 national accounts budget differs from the  
29 administrative budget in that it consolidates  
30 into a single budget various extra-budgetary





- 1 6. accounts which affect the flow of income. It  
2 excludes the purchase and sale of existing  
3 assets and it presents tax receipts on an  
4 accrual rather than a payments basis. The  
5 cash budget is the most useful tool if one is  
6 interested in evaluating the impact of the  
7 government's activities on the capital market.  
8 The national accounts budget is generally  
9 acknowledged to be the most accurate method  
10 of judging the impact of the government's  
11 operations on the level of income and employment.
- 12 7. In my view, the Minister of Finance should  
13 present to parliament and discuss in some  
14 detail each of these budgetary approaches.  
15 Unless this is done it will be very difficult  
16 for the House to make an accurate evaluation of  
17 the probable impact of the government's budget.  
18 As things stand now, even the Minister of  
19 Finance may not clearly understand just how  
20 his budget is likely to affect the economy.
- 21 8. Let me illustrate. In the recent budget debate  
22 the Minister of Finance estimated that the  
23 deficit for the coming fiscal year would amount  
24 to \$720 million if there were no tax increases  
25 and reported a deficit for the year just completed  
26 of \$709 million. Yet as of the first quarter  
27 of this year the Dominion Bureau of Statistics  
28 has reported that the national accounts deficit  
29 of the federal government was running at an  
30 annual rate of only \$164 million after seasonal





- 1 8. adjustment. As far as I know the national  
2 accounts budget was not even discussed during  
3 the recent debate. It is clear that if Mr.  
4 Gordon were to carry through his proposal to  
5 raise an additional \$300 to \$400 million per  
6 year the national accounts budget would show  
7 a substantial surplus. And this would exert  
8 a substantial deflationary effect.
- 9 9. It is also my view that an annual budget is  
10 much too crude a measure to accurately portray  
11 what is taking place in the economy as a whole.  
12 For within a year conflicting trends may occur  
13 and these will be averaged out in an annual  
14 total. A much more accurate picture of what is  
15 happening will be obtained if budgetary data  
16 are presented on a quarterly basis after adjust-  
17 ment for normal seasonal changes. For example,  
18 in the two year period beginning with the  
19 second quarter of 1958, a period of cyclical  
20 expansion, the federal budget, on a national  
21 accounts basis, moved from a deficit position  
22 of \$944 million in the second quarter of 1958  
23 to a surplus of \$104 million in the second  
24 quarter of 1960. Yet the regular budget only  
25 showed a change from a deficit of \$609 million  
26 in the fiscal year 1958-59 to a deficit of  
27 \$413 million for the fiscal year 1959-60. It  
28 is clear that the sharp decline in size of the  
29 federal deficit was a major factor in bringing  
30 the expansion of this period to an end. Indeed,







9. the increase in federal revenues between the 2nd quarter of 1958 and the 2nd quarter of 1960 was \$1,460 million (again using seasonally adjusted data at annual rates) or just about one half of the increase in the entire gross national product during this period. The regular annual budget presentation gave no inkling of what was happening during this period. Thus, it was possible for the federal budget to be showing a small surplus at a time when some 7 percent of the labour force were unemployed without anyone in the government being clearly aware of what was happening.
10. Accordingly, I would recommend that in presenting its annual budget the government not only present it in the context of a national budgetary approach and show the relation between the regular administrative budget, the cash budget and the national accounts budget, but that this entire presentation should be made in terms of quarterly totals (at seasonally adjusted annual rates) with a projection for the four succeeding quarters. It would also be highly useful if the government reviewed and revised these estimates every three months. It may well be that the annual budgetary approach is now obsolete. The impact of the federal government revenues and expenditures are now so comprehensive and far reaching that a regular quarterly budget review may be called for.





11. The second major point I should like to discuss is the relation between the surplus or deficit in the consolidated accounts of all governments and Canada's dependence on foreign capital funds to finance her investment program. The importance of this relationship is underlined by data presented in the following table.

Net Foreign Investment, Government Saving (or Dissaving) and Private Savings of Canadians in Relation to Net Business Capital Formation, Canada, 1947 to 1962.

	Net Business Capital Formation	Net Foreign Investment	Net Canadian Savings	Gov't Savings or Dissavings	Private Canadian Savings
	(1)	(2)	(3)	(4)	(5)
	Percent of National Income				
1947-52	13.1	1.4	11.7	4.3	7.4
1953-57	13.8	5.9	7.9	.7	7.2
1958-61	9.9	5.6	4.3	-2.8	7.1
1962	10.1	3.8	6.3	-2.5	8.8

Note: Net foreign investment includes undistributed profits of corporations in Canada which accrue to foreign owners. In making these estimates the residual error was allocated proportionately to the various components of the source and disposition of national savings. No allowance is made for government capital expenditures. However, this would not change the picture presented. No data are available for net capital spending by governments. Their gross fixed capital spending increased in the following manner as a percent of national income:





1 1947-52, 4.6%; 1953-57, 5.3%; 1958-61, 5.7%  
2 and 1961, 5.8%. See National Accounts:

3 Income and Expenditure, 1926 to 1956, 1955 to  
4 1961 and Fourth Quarter, 1962.

5 12. Examination of the data in this table shows that  
6 in the early part of the postwar period Canada  
7 financed almost all of her capital expenditures  
8 out of her own resources. Foreign funds contributed  
9 only ten percent of the funds required to finance  
10 the net capital expenditures of this period. In  
11 contrast, in the period 1958 to 1961, more than  
12 half of all the funds, some 56 percent, were  
13 provided by foreign sources. It is also clear  
14 that the major difference between these two periods  
15 is that in the earlier period our governments  
16 on balance ran substantial surpluses and these  
17 government savings added to private savings gave  
18 a comparately high rate of saving for Canada as  
19 a whole. In contrast, in the late part of the  
20 postwar period from 1958 to 1961, our governments  
21 incurred substantial deficits or in effect  
22 dissaved thus reducing the overall rate of  
23 Canadian saving very substantially. In their  
24 private capacity the rate of saving of Canadians  
25 changed very little over the postwar period. But  
26 due to the shift from large savings (surpluses)  
27 to substantial dissavings (deficits) on the part  
28 of our governments the overall rate of Canadian  
savings fell from some 11.7 percent of national  
income in the period 1947 to 1952 to a mere 4.3





1 12. percent in the period 1958 to 1961. Moreover,  
2 given the much lower level of capital spending  
3 in effect in the later period, 9.9 per cent as  
4 compared with 13.1 percent of national income  
5 (see column 1), it would have required only modest  
6 government surpluses to have financed Canada's  
7 entire capital spending program in this period.

8 13. I consider the relationships outlined above of  
9 the utmost importance. For it is clear that if  
10 Canadians had been prepared to continue to  
11 support a budgetary policy that provided  
12 substantial government surpluses throughout the  
13 postwar period Canada could have financed her  
14 entire postwar capital spending program or a  
15 very major part of it out of her own resources.  
16 And this would have added very substantially  
17 to the level of real income enjoyed by Canadians.  
18 For as the government surpluses were used to  
19 reduce outstanding debt the previous owners of  
20 this debt would have been able to acquire the  
21 new securities issued to finance the capital  
22 spending program. Thus, many of the new capital  
23 assets now owned by foreign investors would have  
24 been owned by Canadians and the flow of interest  
25 and dividends that now goes to foreign residents  
26 and accentuates our balance of payments problem  
27 would have been received by Canadians instead.

28 14. There exists in Canada, in my view, much too  
29 great a willingness to assume that foreign  
30 borrowing is needed and desirable. During the







14. three decades prior to 1950 Canada's net foreign borrowing was on balance very small or non-existent. For example, between 1926 and 1949 our net foreign indebtedness declined from \$5.1 billion to \$3.8 billion. It is only since that date that there has been a sustained and rapid increase with the result that our net foreign indebtedness is now approaching \$20 billion. Most of all of this rise in foreign indebtedness could have been avoided if a different set of economic policies had been followed and this result could have been secured without any adverse effects on the rate of growth of Canadian output. Indeed, this rate of growth might well have been appreciably higher than it was.
15. An apparent paradox exists here. I have argued that a government surplus is needed to increase the rate of savings and thus reduce our dependence on foreign capital. But I have also argued that under current circumstances Canada may need a larger deficit in order to attain a higher level of employment. The paradox is apparent only. In 1962, Canada had a balance of payments deficit in her current account of \$848 million. Yet, as the data in the above table indicate, in 1962 net business capital formation was only 10.1 percent of our national income. Thus it is clear that with the high rate of private savings in 1962 a very modest government surplus would have





- 1 15. been sufficient to finance the entire capital  
2 spending program. Moreover, if we could have  
3 generated a higher level of income within the  
4 country the increased savings that could have been  
5 made out of this higher income might have made  
6 any surplus unnecessary.
- 7 16. The paradox arises because once a balance of  
8 payments deficit becomes firmly established, and  
9 Canada has had a large deficit in each of the  
10 last 7 years, it takes time to eliminate it.  
11 It is necessary to increase the flow of exports  
12 and reduce the volume of imports. A lower or  
13 depreciated exchange rate is the appropriate  
14 device for securing this adjustment in the flow  
15 of exports and imports. As this adjustment takes  
16 place there will be an increase in the volume of  
17 spending on Canadian goods and services and this  
18 will raise the level of income and employment.
- 19 17. But all of this takes time. And the present exchange  
20 rate may or may not prove low enough to effect  
21 the required adjustment. In the meantime, it is  
22 not inappropriate to pursue a vigorous policy of  
23 deficit financing in order to raise the level  
24 of income in Canada. The only danger inherent  
25 in such a policy is that, having secured a  
26 closer approach to low levels of unemployment, we  
27 may be content to accept a significant balance  
28 of payments deficit when we should be attempting  
29 to reduce it and thus finance a larger share of  
30 our capital expenditures out of our own resources.





18. Unfortunately the general rise in government expenditures since the early postwar period now make it necessary to impose a much larger burden than was true just after the war in order to achieve a government surplus. This is evident from the following data:

	Government Revenues	Government Expenditures	Surplus or Deficit
	Percent of National Income		
1947-52	34.4	30.1	4.3
1953-57	35.7	35.1	.7
1958-61	37.6	40.4	-2.8
1962	39.8	42.3	-2.5

Source: National Accounts: Income and Expenditure,  
Dominion Bureau of Statistics.

Thus to achieve a surplus in relation to national income of the size that was recorded in the period 1947-52 it would have been necessary as of 1962 to raise tax and other revenues equal to 46.6 percent of the national income. Yet in the earlier period this surplus was achieved with government revenues that were only 34.4 percent of the national income. If government expenditure levels continue to increase it may be all but impossible to raise tax levels to a point where the government again achieves a surplus. If this proves to be the case Canadians will have to forego the opportunity that has been open to them in the past of reducing their dependence on foreign funds by means of government savings in the form of a surplus.





19. There are, of course, no clear and precise limits to the extent to which government tax and other revenues can increase in relation to national income. Colin Clark once argued that when government revenues exceeded 25 percent of the national income inflation would set in, but this level has long since been surpassed in many countries and Clark's rule has been all but forgotten. The ratio of government revenues to national income in Canada is still below the level that has been reached in a number of other countries. Nevertheless, as the general tax level rises it becomes increasingly difficult to achieve still further increases. This underlines the need for care in the further extension of expenditure programs and suggests that there may be need for a thorough re-examination of existing programs.
20. If the increase in government expenditures over the past three decades is examined it soon becomes apparent that a major part of the increase is due to a few main expenditure programs. This is evident from the data given in the following table:

/Contd....







1 Government Expenditures, Canada, Selected Years,  
2 1926 to 1961

3		1926-29	1947-49	1961
4		(Percent of Gross National Product)		
5	Expenditures, Total	15.3	22.7	32.3
6	Defence	.3	1.8	4.4
7	Other federal goods and services	2.1	3.1	3.7
8				
9	Provincial goods and services	1.9	3.1	4.1
10				
11	Municipal goods and services	5.4	4.3	7.3
12				
13	Transfers: 4 major programs*	0.0	2.8	6.1
14				

15 \*Family Allowances, Old Age Pensions, Unemployment  
16 Insurance and Hospitalization.

17 Thus these data show that about one-third of the  
18 increase in government expenditures since the late  
19 1920's has been due to four major programs in the  
20 health and welfare area. Another one-fourth is  
21 due to the greatly expanded size of our defence  
22 program. Still another one-fourth reflects  
23 increased expenditures on goods and services at  
24 the municipal and provincial level.

25 21. The importance of health and welfare expenditures  
26 in explaining general increase in government  
27 expenditures taken together with the fact that  
28 further increases in this area now appear to be in  
29 sight would suggest that it may be time for a  
30 thorough and comprehensive re-examination of the





21. entire health and welfare field to see if the important welfare objectives desired by the Canadian people can be attained without a further increase in the general level of taxes and other government revenues. As things stand now there is a serious risk that any further rise in these expenditures may effectively be financed by borrowing from other countries. This will occur if the general rise in expenditures make it impossible for Canada to achieve the government surpluses needed to finance our entire capital spending program out of our own resources. For the alternative to the increased welfare expenditures could be a government surplus which would reduce our dependence on foreign capital. Would parliament so readily approve a further increase in old age pensions if they knew that they were really being financed by borrowing from the United States? I doubt it. Instead of running to Washington when Kennedy announced his proposed tax on new issues of foreign securities, our government should have seized this opportunity to announce that they were determined to make Canada more independent of foreign capital. In the long run all Canadians would benefit from such a move. The Canadian infant has grown up. It is time it was weaned and gave up its diet of foreign capital.

SUBMISSION

to the

ROYAL COMMISSION ON TAXATION

Presented By

RETAIL MERCHANTS ASSOCIATION OF CANADA  
(MANITOBA) INC.

309 Lindsay Bldg., - Winnipeg 2, Manitoba.

Winnipeg, Man.

August 29th, 1963.





SUBMISSION  
to the  
ROYAL COMMISSION ON TAXATION

Presented By  
THE RETAIL MERCHANTS' ASSOCIATION OF CANADA  
(MANITOBA) INC.

OPENING STATEMENT.

Mr. Chairman and Commissioners.

My name is Harvey A. Carmichael. I am a small businessman residing in Portage la Prairie where I operate an Independent Retail Men's Wear Store. It is my honour to appear before you today as the President of the Retail Merchants' Association of Canada (Manitoba) Inc. I am accompanied by Mr. M. M. Wocks the Provincial General Manager of our Association. The brief we are presenting today is the result of studies we have undertaken into the serious matter of inequitable taxation and the opinions we express are those of a large cross-section of Retailers throughout this province.

Neither Mr. Wocks nor myself lay claim to expert knowledge in the field of taxation - we are ordinary businessmen presenting a case for equal taxation and fair competition. As businessmen we are speaking for a large number of people who have, for many years, borne the brunt of unfair competition from co-operatives.

This brief has received the approval of our Board of Directors and we have been assisted in its preparation by our National Office Co-ordinating Committee on Taxation. We will endeavour to answer your questions to the best of our ability, although it may be necessary to refer some items to our Dominion Assoc-





iation for reply.

It will be observed that our submission does not challenge the right of the Co-operative Movement to an integral part in our business and commercial life but we are vitally concerned with its comparative freedom from taxation when competing directly with other businesses engaged in the marketing of the same or similar products and which are subjected to severe taxation.

It is difficult to conceive wherein lies the equity of one business being called upon to bear its share of the National Tax burden while a direct competitor is not called upon to assume any similar responsibility and while at the same time one and all receive from the government the same identical benefits of public service and public security.

The tax favoured treatment of co-operatives cannot be satisfactorily justified by the claim they are a different form of business and that the function of co-operatives is commonly misunderstood by ordinary businessmen. Nor can it be defended by the statement that co-operatives supplement "private" enterprise when it fails to perform adequately by itself.

These contentions are invalid. There can be no misunderstanding among ordinary businessmen about the fierce competition of tax-favoured co-operatives. It is conceded that co-operatives earn profits which they choose to call "savings". They distribute these profits in the form of allocation of tax deductible patronage dividends: the recipients of these patronage dividends are the members of the co-operative and the members of the co-operative are also its shareholders. These patronage dividends are described by co-operatives as



"Price Adjustments" or returns of "Overcharges" to members.

Our submission deals specifically with the "Price Adjustment" theory and concludes, as recent economic studies have concluded, that patronage dividends are not substantially akin or even similar to bona fide price adjustments; to the contrary, they are earnings of co-operatives distributed as profit to members in much the same manner as earnings of a shareholder company distributed as profit, after payment of Income Tax, to the company's shareholders.

There is one aspect of this co-operative taxation controversy that should receive the careful consideration of the Commission. Ownership of countless business concerns in Canada, including those in the distributive industries, is distributed among scores of thousands of individual Canadian citizens, by way of investments, employee pension funds and retirement savings plans. All of these people have invested their savings in these businesses in the firm conviction that they could meet their competitors on a fair and even footing. Extremely high taxation is being borne without protest as a responsibility of citizenship in bearing a share of the cost of government and providing an ever-increasing range of social benefits. None of these citizens have ever, at any time, contemplated that it would be possible for them or for anyone else to carry on a business and then at the end of the year instead of paying half the profit in Income Tax, simply split the amount of the tax among themselves, call it "savings" and be all tax free. This is exactly the situation permitted by our Income Tax Laws, in the case of Consumer Co-operatives whose patronage dividends are untaxable in the hands of member recipients. The taken



amount of tax normally paid by the Consumer Co-operative is the only tax paid on its earnings.

We do not dispute the role of co-operatives in the economic organization of our society but we do believe that they should maintain their position through efficiency and not through a tax subsidy. If co-operatives must have tax subsidies to exist, then they must be a less efficient method of production and distribution than their counterpart, the ordinary fully-taxed corporation. Furthermore we think it is wrong for the government to aid any business or industry by granting a tax concession to only that part which happens to be constituted in a certain manner and conducts its affairs according to a certain plan.

In seeking equality in the taxation of co-operatives and the removal of competitive inequities we are convinced that co-operatives are no longer in need (if ever there were a need) of their special tax privileges to exist and flourish. They can prosper with equal taxation at least to the same extent as their fully-taxed business competitors.

On the question of Federal and Provincial Sales Taxes we would inform the Commission that these subjects are presently the topics of study and investigation by our Dominion Association. It would therefore be premature for us to attempt a general discussion on sales tax at this time. However, we have no hesitation in presenting you with a brief outline of our provincial association policy.

#### Federal Sales Tax.

We are not in favour of proposals which have been put forward



for changing the base to the level at which retailers purchase. This would, of course, involve the Wholesaling Industry in licensing and multiply tremendously the number of businesses required to collect and account for the tax to the federal government. We can foresee numerous problems and the prospect of inequities arising out of the variable levels at which retailers buy (Manufacturer, Distributor, Wholesaler) and the price at which they buy having regard for quantity and terms.

On the basis of present information we would not support the proposition to move the base of the federal sales tax to the Retail level thereby making retailers accountable for the tax.

#### Provincial Retail Sales Tax.

We are aware of the speculation in some places that a Retail Sales Tax in Manitoba may ultimately become necessary. As a matter of policy we are opposed to such a tax until such time as it is completely unavoidable. Retailers dislike this form of taxation which requires them to become the tax collecting agents of the provincial treasury. Considerable expense attaches to the Retailer with this form of taxation as he must compute the tax on each taxable transaction, collect it and install new accounting procedures and sometimes additional staff to account for the tax to the government.

In any event, faced with the prospect of a Provincial Retail Sales Tax in Manitoba the Association would take the position that the rate of tax should be low, not more than 2%, to avoid the otherwise sharp increase in prices. We would advocate that the tax be based on the sale of all commodities with no exemptions and that the tax extend to the rapidly growing ser-





vice industry.

In this way our recommendation for a minimum rate of sales tax could be achieved and the governments' revenue objectives accomplished.

#### Indirect Sales Tax

It would require a constitutional amendment for the provinces to invade the field of Indirect Taxation. We are firmly opposed to hidden taxation especially when it has the effect of increasing consumer prices. We believe that such a tax would not, in fact, become hidden without drastic legislation which would be fundamentally undesirable and would create a storm of protest if proposed.

We in the retail industry would be severely critical of an Indirect Retail Sales Tax which is often termed a "Turnover" Tax. In reality such a sales tax is imposed, technically, upon the vendor of goods and is essentially a levy on the retailer for the privilege of doing business at retail. Under this system the amount of tax liability would be measured by the sales, or gross receipts from sales, of taxable goods during the period. Such a system, therefore, places the legal incidence of the tax on the shoulders of the retailer, whereas under the direct form of Retail Sales Tax the incidence is on the purchaser and the retailer is simply the tax collecting agent for the province. Finally we consider hidden taxes at the retail sales level as undesirable.

All of which is respectfully submitted.

RETAIL MERCHANTS ASSOCIATION OF CANADA  
(MANITOBA) INC.

AUGUST 29th, 1963.

HARVEY A. CAMMICHAEL, PRESIDENT

SUBMISSION  
to the  
ROYAL COMMISSION ON TAXATION  
Presented by  
THE RETAIL MERCHANTS ASSOCIATION OF CANADA  
(MANITOBA) INC.

SECTION I

A. INTRODUCTION

1. May we first of all express our appreciation to the Commission for this opportunity to appear and to state our views on those aspects of Canadian Tax Legislation which are of most concern to the Retailers of this Province.
2. We fully recognize the magnitude of the task you have on hand, the countless ramifications of the subject of your inquiry and the importance of your findings to all taxpayers and to the economy of our nation. This brief is therefore presented in the hope that it will be of assistance in your deliberations and that the recommendations proposed will be embodied in the context of your findings.

THE RETAIL MERCHANTS ASSOCIATION OF CANADA  
(MANITOBA) INC.

3. It is our honour to present this submission on behalf of the Retail Merchants Association of Canada (Manitoba) Inc. which is a voluntary, non-profit organization, incorporated under the laws of this Province, with offices located in the City of Winnipeg. Our Association received its Charter from the Dominion Association in 1913 and has conducted its affairs in this Province, on behalf of the Retail Industry, since that time. The aims and objects of the Manitoba Association are similar to those of the Dominion Association and its other Provincial affiliates.





To avoid repetition, may we refer the Commission to the objectives of the Association as set forth in the Ontario submission of May 21st, 1963.

4. Membership is extended to retail merchants carrying on business in the province of Manitoba or a nominee of a corporation carrying on business in the province. Our representations are on behalf of some 3,000 retailers in all categories of retailing and representative of most provincial regions.
5. Retailing in Manitoba has developed into one of the province's leading industries with sales reaching an all time high of more than \$850 million in 1962.<sup>1</sup> Sales are distributed between three general classifications of ownership - the single-unit independent stores which continue to dominate the scene - retail chain stores and consumer co-operative stores. This latter group are the recipients of special income tax privileges which are the main factor in accounting for their recent surge of expansion and diversification into numerous lines of merchandising activity.
6. The contribution of retailing to our provincial and national economy is of significant importance. The industry provides employment for an impressive number of people and the jobs of many more (manufacturing, wholesaling, transportation, to mention a few) are dependent upon the success or failure of the retail effort in rural as well as urban centres. Most retailers are in the category of small business and it is the

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1. Dominion Bureau of Statistics - Vol. 34 - No. 11 -  
"Retail Trade December 1962"



small businessman who has pioneered the development of this nation. It is the small businessman who, from a social and economic point of view, still occupies one of the most important and essential roles in the business and community life of our nation.

7. In many of our provinces the retail trade has been called upon to become the tax collecting arm of the Provincial Government for Retail Sales Taxes. Retailers are required to compute and collect the tax on every taxable transaction, install special accounting systems and equipment and remit the proceeds of the tax collected to the Provincial Treasury. All of this is done at considerable expense and inconvenience to the retail merchant. Apart from this, the retail trade of this province, as in other provinces, constitutes an important source of revenue for tax dollars at the level of Municipal, Provincial and Federal Governments. Retailers have traditionally accepted their responsibility to strive for good government and share in the costs of running the country in proportion to their capacity to pay. They do expect, however, that the incidence of taxation is equally distributed among all taxpayers and that no special privileges be accorded to one group of competitors over another.

#### B. TERMS OF REFERENCE

8. This submission is concerned with the following specific Terms of Reference handed to the Commission:-

- a) The distribution of burdens among taxpayers resulting from existing rates, exemptions, reliefs and allowances provided in the personal and corporation income taxes, estate





taxes and sales and excise taxes, taking into account also the jurisdiction and practices of the provinces and municipalities.

- c) Provisions in existing laws which may have given rise over the years to anomalies or inequities which may require action to close loopholes which permit the use of devices to avoid fair taxation.
- f) The changes that may be made to achieve greater clarity, simplicity and effectiveness in the tax laws or their administration.

#### C. STATEMENT OF POSITION

9. In the matter of taxation, there are five basic considerations upon which there is common agreement:-

1. Government is required to administer the affairs of this country.
2. Payment must be made for cost of Government administration and social services.
3. Taxation, in one form or another, is the only logical way to pay for these services until a better way (if such there be) can be found.
4. Taxation should be based on the "Ability to Pay".



5. All individuals and businesses, whether single proprietorships, partnerships, companies or corporations, who wish to enjoy the benefits of this country should be willing to pay their fair share of the tax load.
10. This being the case, we wish now to consider taxation of businesses whether single proprietorships, partnerships, companies or corporations.
11. To a constantly increasing degree, business in Canada is being divided into two highly competitive but widely differing systems.
12. The longer established system is privately owned businesses, under which inventive genius, capital and labour are inseparably joined and in which the avowed motive is profit.
13. The other system is government subsidized co-operative corporations who claim, at least, that no profit is desired or obtained.
14. One major difference between the two systems is this: The first pays all taxes and bears the brunt of the national support. The second pays little or no Federal Income Tax and is therefore able to pyramid its growth by Government subsidy.
15. Consequently, our taxation system fails to achieve equity between all taxpayers and it is the position of retailers that the tax-favoured status of co-operative businesses constitutes the most glaring and the most serious inequity in our tax legislation. All taxpayers have a large stake in an



equitable solution of the problem of determining the proper tax treatment of co-operative corporations. The wisdom of a taxing policy which confers upon a large segment of Canadian business treatment which is preferential to their competitors is a matter of grave concern to such competitors. Even more important, a taxing policy that opens the door to the decimation of the Federal Income Tax by the co-operitization of more and more businesses and industries is a matter of deepest concern to all taxpayers.

16. We therefore urge the Commission to carefully appraise the problems created by Sections 73 (New Co-operatives) and 75 (Ordinary Trading Co-operatives) to which can be attributed the astonishing tax concessions of co-operative businesses. We respectfully request the Commission to initiate such steps as it may deem necessary to restore equity and protect the revenues.

## SECTION II.

### THE INCOME TAX STATUS OF CO-OPERATIVES

#### A. TAX EQUALITY DOES NOT IMPLY DISAPPROVAL OF CO-OPERATIVES

17. In raising the subject of co-operative taxation and in seeking the redress of what we regard as an unfair situation, it should be made clear that the Retail Merchants Association is in no way attempting to conduct a vendetta against co-operative trading organizations as such. The businesses we represent are happy to take on any competition, co-operative or otherwise. All we ask is that the rules of taxation be the same for everyone. Although the first rule



of fair competition is that competitors must play the game under the same set of rules, co-operative businesses are playing under an entirely different set of rules. Income tax forgiveness provides an enormous advantage to co-operatives in a highly competitive economy.

18. In presenting our case for equity in the taxation of co-operatives, it should also be clearly understood that we do not suggest that co-operatives are failing to observe the provisions of our taxing statutes. The fault lies in the Income Tax Act which is so framed that businesses carried on as co-operatives can minimize their income tax payments to as little as one-tenth of the tax imposed on their ordinary business competitors, with similar profits.
19. Co-operatives are Big Business now, with an annual sales volume of \$1½ billion. Through their tax-free accumulations of capital and reserves, they are becoming Bigger Business. At the present rate of growth and with the perpetuation of discriminatory Income Tax Laws, it is likely that co-operative volume will reach astronomic figures in the not too distant future. Recent business forecasts of co-operative spokesmen give substance to this claim.
20. Co-operatives compete with tax paying businesses; they enjoy all the benefits of orderly Government which are paid for by tax paying businesses -- they are not dependent upon their tax privileges to exist and prosper. Nor will taxation prevent Co-operatives from growing and expanding; they will merely be limited to a rate of growth and expansion more comparable to that of their business competitors.





21. There can be no sound or stable economy when the same kind of business is done under two entirely different systems and one system is accorded major tax concessions which are not available to the other.

B. HISTORY OF CO-OPERATIVE INCOME  
TAX ADVANTAGE

22. Contrary to the claims of co-operative leaders, the present important tax advantages were not deliberately granted to co-operatives by the Government. These advantages have arisen through the higher income tax rates brought into effect since the outbreak of the Second World War. At the outbreak of World War II, the corporation tax rate was 15%. Today, it ranges from 21% to 52%.
23. Although income taxation legislation was inaugurated in this country in 1917, it was not until 1930 that specific provisions covering co-operatives of the true "agency" type was introduced. In the years that followed there was considerable doubt and confusion as to the principles of this Legislation and the effect of its application to co-operatives. In 1944, as the result of dissatisfaction among both business and individual taxpayers, because co-operatives were not paying their fair share of the tax load, the McDougall Royal Commission was formed and directed to investigate the matter of co-operative taxation.
24. As a result of its hearings and studies, the recommendations of the McDougall Commission in 1946 were:-

(i) that the law be amended "to provide for



the taxation of Co-operative associations and organizations on the same basis as other persons";

(ii) that Co-operatives, ordinary joint stock companies and others be allowed to deduct amounts paid as patronage dividends provided that they were paid in cash or its equivalent within six months;

(iii) that newly formed Co-operatives be granted a three-year tax exemption.

25. Tax Legislation based on the Commission's recommendations was introduced in 1946 and with one important exception has remained in substantially unaltered form until the present day. The provisions introduced then, comprise most of Sections 73 and 75 of the Act as presently framed. The chief exception is Section 75(4)(f)(ii) which was introduced in 1948. This amendment extended the meaning of the word "payment" to embrace the "forced loan" method of dealing with patronage dividends. Schedule "A" is a reproduction of the Sections of the Income Tax Act relevant to the tax treatment of co-operatives.

26. Three observations can be made from the findings of the McDougall Commission:-

1. Co-operatives which had previously escaped the income tax were made subject to it. Their claim not to have income was met explicitly and totally rejected.



2. An attempt was made to meet the easily recognizable competitive inequalities between co-operatives and other businesses through the expedient of permitting the other businesses to pay patronage dividends and to deduct them from taxable income under conditions comparable to those applicable to co-operatives.

27. The effect of the first recommendation was to establish beyond doubt that co-operatives are trading corporations which earn taxable income and which therefore should be liable to income taxation; but the principle of the recommendation has been virtually nullified by introducing into the Income Tax Act a series of escape hatches by means of which co-operatives can minimize the tax liability that would otherwise attach to them.
28. The second recommendation was a clear recognition that the co-operative practice of distributing earnings as patronage dividends, and thereby avoiding taxation, created competitive inequality; but the remedy which was recommended and subsequently written into the Act -- extension of similar patronage dividend privileges to other businesses -- has failed in its objective to the detriment of fair competition and the National Revenue.
29. The third recommendation, now Section 73(1) of the Income Tax Act providing a three-year tax exemption for new co-operatives is entirely contrary to any principle of equality. It constitutes an extreme and indefensible form of discrimination.



30. We cannot help but conclude that the approach in Canada to the problem of co-operative taxation has, thus far, been defective. The recommendations of the McDougall Commission have been found wanting in principle and have produced unfortunate consequences after having been written into the Income Tax Act. At best, it can be said the Commission's recommendations and subsequent tax legislation was a temporary stop-gap solution, based upon studies during wartime, to reduce the degree of injustice and to reduce the erosion of the tax base. But the Second World War was ended some 17 years ago and the peacetime problem of co-operative taxation should have been solved upon its merits long before this time. Each time tax rates have increased since 1946 the margin of disparity has widened.
31. It has been clearly established that a co-operative corporation is an entity separate from that of its members and as such open to the application of a full and equal measure of taxation. The claim that co-operatives have no income has been clearly rejected by the McDougall Royal Commission and the Income Tax Act itself recognizes the fact that co-operatives do have income. It would seem therefore that the main issue to be resolved is the question of the true nature of patronage dividends - price adjustment or distribution of profit?

### SECTION III

#### D. PATRONAGE DIVIDENDS - PRICE ADJUSTMENT OR DISTRIBUTION OF PROFIT

32. It is a basic co-operative principle, coming down from the beginnings at Rochdale more than a century ago, that the pro-





fits of the business should be distributed to member-owners in cash, and this would apply whether taxes were paid or not. If it were being done -- if co-operatives actually did distribute their earnings in cash -- co-operative businesses could never have grown at the rate that they have recently achieved.

33. Instead of making their dispositions in cash, they have devised a plan whereby their payments of patronage dividends are in the form of scrip -- in preferred or common stock -- in certificates of indebtedness -- while the actual cash, including the very considerable amounts of money that would normally be paid in taxes to the Federal Government, is added to capital structure and reserves.
34. In other words, a co-operative is able to pyramid itself year after year out of accumulated earnings that its competitors pay to the Federal Government in the form of taxes.
35. Co-operative leaders declare that patronage dividends are not profit; they are simply the surplus resulting from over-charging. They state that any ordinary business could make the same arrangement with its patrons and fall into the same tax category as the co-operative.
36. According to normal accounting procedures the operations of any business concern can show only one of three operating results:-

(a) An Even Balance - when assets and liabilities are equal.

(b) A Loss - when liabilities exceed assets.



(c) A Profit - when assets are greater than liabilities.

37. As far as ordinary businesses are concerned, this "over-charging" is a profit. It is our contention that the surplus shown by co-operative businesses is "profit" just as well as the surplus shown by any business. Both surpluses are derived from the same source.
38. When co-operatives claim that "no tax discrimination exists because ordinary business can distribute patronage dividends to its patrons and fall into the same tax category as the co-operative", they simply admit that co-operatives are in a different tax category than other businesses. This invalidates the meaning of the traditional co-operative claim that "co-operatives pay exactly the same taxes that other business organizations pay."
39. The establishment in the framework of the Income Tax Act of the deductibility of patronage dividends (co-operatives and ordinary businesses) is of the greatest significance in that it has accorded all co-operatives the opportunity of eliminating taxable earnings by the simple expedient of allocating such earnings in the form of patronage dividends, and reinvesting a substantial portion of these tax-free earnings into expansion and diversification. The main consequence is that the co-operative movement has spread from the farm to the factory, retailer, wholesaler and indeed into almost every conceivable type of business enterprise.
40. The theory of the patronage dividend appears to be that the co-operative is doing "business at cost". The co-operative arrives at cost by charging or paying a tentative price above



or below cost, as the case may be, depending upon whether it is a purchasing or a marketing co-operative and then paying a patronage dividend at the end of the year to arrive at "true cost". By comparison, may it be pointed out, that if ordinary business corporations were to attempt to do business with their stockholders at cost, even by agreement, there is little doubt but that the National Revenue Department would disregard such agreement as not at "arms length" disguising a distribution of its earnings to its stockholders.

41. Co-operatives maintain that patronage dividends are properly excludible or deductible from the gross income of a co-operative corporation on the theory that such dividends represent rebates, discount, price adjustments or refunds made pursuant to contract to their member-patrons. The fact is that patronage dividends are not substantially akin or even similar to bona fide price adjustments; to the contrary, they are earnings of co-operatives distributed as profit to members.

42. Even on the most cursory examination, many differences between a price adjustment and a patronage dividend can be noted.

(a) Price adjustments or rebates are generally regarded in the commercial world as payments made for the encouragement of cash payments, quantity purchases or continued future patronage. These considerations are absent in the case of patronage dividends which serve only as a vehicle for the distribution of profits.

(b) Patronage dividends are paid only in the event of profit. Price rebates are usually independent of profit.



(c) Patronage dividends are paid months and even years after the sales involved. Price rebates are generally paid at the time of the transaction.

(d) Patronage dividends are paid in a form and an amount at the discretion of the co-operative. Such discretion is not available to ordinary businessmen called upon to make a price adjustment.

(e) Patronage dividends are subordinated to the payment of creditors and other liabilities. Price rebates are not.

(f) Patronage dividends bear no relation to the profit realized by the corporation and its transaction with the individual member to whom the dividend is distributed. The price adjustment or rebate theory of co-operatives assumes that a calculation of profit on each individual member's business is undertaken, but in fact, no such calculation ever takes place. The individual member's transactions may result in a loss to the co-operative but he still receives a dividend based on profits gained in another wholly unrelated segment of the business. His transaction may result in profits much more or much less than the average margin





and yet his dividend is determined on the basis of the average margin. The co-operative may realize profits upon transactions with its members and such profits may become non-distributable due to corporate losses in other enterprises.

43. These factors point up the fact that patronage dividends are paid not from the profits of each member's dealings, but out of corporate earnings as a whole.
44. Patronage dividends are a reflection of the earning power of activities carried out solely by the co-operative itself. A marketing co-operative may not only market but it may store, process and manufacture. All their activities have commercial value, the profits of which belong to the co-operative and the co-operative alone. It is plain nonsense to treat these amounts as price adjustments.
45. Therefore, the price adjustment theory, the only semblance of support to the patronage dividend deduction, disintegrates on examination. It is overdue to be eliminated as deductible in the calculation of income tax.
46. The true nature of patronage dividends was well summed up in the publication "Recent Growth In Canadian Co-operatives". The author stated on Page 36:-



"Nor does the view that co-operatives' net surplus is not profit find much support outside the movement itself. As a recent careful study has stated this matter, it is rather that 'co-operatives are organized to increase the gain of their members, and to the extent that they do, they have profits. A rebate is only such if paid to a person whose interest is adverse to that of the business which pays it'.<sup>14</sup> It is further noted that 'the source of the patron-members' real gain is the transactions of their associations with others whose interests are adverse to theirs. Their interests, like those of the stockholders of an ordinary corporation, are furthered by the operations of a separate and distinct business entity.'<sup>15</sup>"

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14. See Robert T. Patterson, "The Tax Exemption of Co-Operatives" (New York: University Publishers), 1961, P. 71.

15. Ibid. P. 82.

47. Another contention of co-operatives is that if they were to be taxed on their net margin, they could frustrate such a program by doing "business at cost".
48. Such a proposition is economically impracticable for any business. Any co-operative attempting it would court certain bankruptcy. In any event, competitive businessmen would welcome such a turn of events as it would eliminate the power of co-operatives to expand and grow on tax-free dollars.
49. We submit that it is grossly unfair to discriminate between ordinary companies and co-operatives just because of the basis of distribution of their earnings. This point was neatly summed up by Professor McIvor in the publication "Recent Growth in Canadian Co-operatives" again at Page 36.



50. Professor McIvor stated:-

"The essence of this discrimination lies in the fact that whereas Section 75 (1) makes no distinction in the 'quality' or nature of income earned by co-operatives and by ordinary corporations, it does make a distinction in the taxing of such income, depending upon the particular pattern in which it is distributed. If the enterprise chooses to distribute these net earnings with reference to patronage, Section 75 (1) becomes applicable in reducing taxable income; if it distributes earnings with reference to share capital, Section 75 (1) does not apply. Among the possible objectives of such tax legislation, equity is one which does not appear to be achieved by a situation in which the differential treatment rests solely upon the particular internal pattern of claims upon earnings which the enterprise chooses to adopt."

51. At this point, we respectfully suggest that it is undesirable from their point of view for co-operatives to be in a preferred tax category which is bound to nurture a feeling of exemption, by law, from accepting a fair degree of public responsibility at the level of Federal Government. We believe that there is a growing consciousness among co-operative members that this is not the time to think and act selfishly and that the co-operative movement should accept its responsibility at the income tax level just as it does in the case of less costly taxes at the local level.

52. It was observed by Professor McIvor in "Recent Growth in Canadian Co-operatives" at page 37:-

"In exceptional cases among co-operative leaders, the writer has found agreement with the view that Canada's present income tax provisions do discriminate in favour of co-operatives and that the movement might, in the long run, very well gain from the removal of this chronic source of friction."



53. We believe that there are probably a great many co-operative members whom Professor McIvor did not have an opportunity of meeting but who share the view that co-operatives are doing themselves a disservice by attempting to retain an unjustified tax privilege.

#### SECTION IV

##### CONCLUSION AND RECOMMENDATIONS

54. Corporate and Business profits are significant sources of tax revenues for the Federal Government; likewise they constitute an important expense for business firms paying the taxes. Complete or partial freedom from the payment of corporation Income Taxes has long been a substantial competitive advantage to co-operatives and this is demonstrated by their phenomenal rate of growth.
55. As a group, co-operatives have attempted to justify tax advantages on the theory that the co-operative method of doing business does not give rise to any net income or profit. This theory has been rejected by the Royal Commission on Co-operatives and by present income tax legislation. It finds no support other than among co-operative partisans. It is unconditionally recognized that a typical co-operative, if successful, like any ordinary corporation, does have an operating profit at the end of its fiscal period which may be increased or diminished by other income or expense. In the conduct of its business, the co-operative has bought at market prices, paid prevailing wages, and sold its products at standard prices. Its relations with both the public and with its employees have been no different from those of the ordinary corporation.





56. At the end of the fiscal period, after other income -- usually patronage dividends from affiliated co-operative organizations or subsidiaries -- has been added to the operating profit, a patronage dividend is allocated, but not necessarily paid in cash. More often a substantial portion of the patronage dividend is reinvested in the co-operative enterprise as tax-free capital. It is asserted that these patronage dividends are not a distribution of profit but simply a rebate of "overcharges" or a "price adjustment". This is the only claim upon which there can be any semblance of justification for the special tax treatment of patronage dividends and the claim is found to be invalid by recent impartial economic studies.
57. It cannot be over-emphasized that the return, by way of patronage dividend, to any one member is not simply a repayment of the overcharge made to that particular member, it represents the result of and the profit on all the co-operative's trading ventures. Some of these ventures may have little connection with the transactions carried out by the members ( i.e. the co-operative's profit may all have stemmed from its real estate holdings) and in any event the return cannot be linked to the transaction with any one member -- it represents the consolidated results of the whole. In other words, the co-operative member, just like an investor in an ordinary company, participates in the trading fortunes of his co-operative.
58. Other arguments for the tax privileges of co-operatives cannot seriously be considered as realistic. No logical defense can be offered in support of the three-year tax exemption of co-



operatives. There are no reasonable grounds to consider patronage dividends in the hands of recipients as anything else but similar to corporation dividends in the hands of shareholders.

59. To properly achieve equity in the taxation of co-operatives, tax legislation should apply equally to the profits of ordinary business and co-operatives. Dividends paid by both forms of business should be liable to the same rates of taxation in the hands of recipients, each receiving benefit of any prevailing tax credits or allowances.

60. The problem of the co-operative tax situation is critical. It represents the greatest inequity in our taxation system and this inequity should be removed. Until the profits of co-operatives are exposed to equalized taxation, perpetuation of this enormous wrong will continue to impede fair competition, erode the tax base and decrease the national revenue.

#### RECOMMENDATIONS

61. It is the proposal of this Association that equality of taxation between co-operatives and ordinary business can be achieved by parliamentary action along the following lines:-

1. Rescinding the three-year tax holiday for new co-operative businesses.
2. Disallowing the deduction of patronage dividends (co-operative and ordinary business), as deductions in the calculation of Income Tax.



3. Providing for similar tax treatment of patronage dividends and shareholder dividends in the hands of their recipients, granting at the same time, equal tax credits or allowances which may prevail.

All of which is respectfully submitted.

RETAIL MERCHANTS ASSOCIATION OF CANADA  
(MANITOBA) INC.

HARVEY A. CARMICHAEL, PRESIDENT.



SCHEDULE "A"

CANADIAN INCOME TAX ACT

1961 Edition

Section 73 (Pages 179, 180) -- CO-OPERATIVES

Section 73 (1)

(1) 3-year exemption. No tax is payable under this Part upon the taxable income for each of the first 3 taxation years after commencement of its business of a corporation that commenced business on or after January 1, 1947, and that was incorporated under provincial legislation respecting the establishment of co-operative corporations for the purpose of marketing (including processing incident to or connected therewith) natural products belonging to or acquired from its members or customers, of purchasing supplies, equipment or household necessities for or to be sold to its members or customers or of performing services for its members or customer, if, during the taxation year,

- (a) the statute under which it was incorporated, its charter, articles of association or by-laws or its contracts with its members or its members and customers held forth the prospect that payment would be made to them in proportion to patronage,
- (b) none of its members had more than one vote in the conduct of the affairs of the corporation,
- (c) at least 90% of its members are individuals and at least 90% of its shares, if any, are held by individuals,
- (d) the rate of interest on capital subscribed by its members or the rate of its dividends on its shares did not exceed 5% per annum,
- (e) the value of the products marketed for or acquired from, supplies, equipment and household necessities purchased for or sold to, and services performed for, its customers other than members did not exceed 20% of the total thereof for all its business, and
- (f) the business carried on by the corporation was not a continuation of a previous business in which a substantial number of its members had a substantial interest, either as shareholders of a corporation carrying on the previous business or otherwise.

Section 73 (2)

(2) NON-APPLICATION OF PAR. (a), ss. (2), Sec. 81. Paragraph (a) of sub-section (2) of section 81 does not apply where the corporation that redeemed or acquired its common shares or that reduced its common stock is a corporation that was incorporated under provincial legislation respecting the establishment of co-operative corporations for the purpose of marketing (including processing incident to or connected therewith) natural products belonging to or acquired from its members or customers, of purchasing supplies, equipment or household necessities for or to be sold to its members or customers or of performing services for its members or customers.





Section 73 (3)

(3) **PROVINCIAL GRANT.** Where a corporation that was incorporated under provincial legislation respecting the establishment of co-operative corporations for the purpose of marketing (including processing incident to or connected therewith) natural products belonging to or acquired from its members or customers, of purchasing supplies, equipment or household necessities for or to be sold to its members or customers or of performing services for its members or customers has received a grant from the government of a province that was not fixed by reference to natural products marketed, supplies, equipment or household necessities purchased or sold or services performed by it,

- (a) no amount shall be included in respect of the grant in computing the corporation's income for any year, and
- (b) paragraph (h) of subsection (6) of section 20 is not applicable in respect of any property in respect of or for the acquisition of which it was received.

Section 75. (Pages 181, 182, 183, 184)

PATRONAGE DIVIDENDS

Section 75 (1)

(1) Deduction in computing income. Notwithstanding anything in this Part, there may be deducted, in computing income for a taxation year, the aggregate of the payments made, pursuant to allocations in proportion to patronage, by a taxpayer.

- (a) within the year or within 12 months thereafter to his customers of the year, and
- (b) within the year or within 12 months thereafter to his customers of a previous year, the deduction of which from income of a previous taxation year was not permitted.

Section 75 (2)

(2) Limitation where non-member customers. Notwithstanding subsection (1), if the taxpayer has not made allocations in proportion to patronage in respect of all his customers of the year at the same rate, with appropriate differences for different types or classes of goods, products or services, or classes, grades or qualities thereof, the amount that may be deducted under this section is an amount equal to the lesser of

- (a) the aggregate of the payments mentioned in subsection (1), or
- (b) the aggregate of
  - (i) the part of the income of the taxpayer for the year attributable to business done with members, and
  - (ii) the allocations in proportion to patronage made to non-member customers of the year.



Section 75 (3)

(3) Limitation by reference to capital employed. Where the deduction of an amount under subsection (1) or (2) would result in the taxpayer's taxable income for the taxation year (before deduction of any amount under section 27 in respect of business losses) being less than the amount by which

- (a) 3% of the capital employed in the business at the commencement of the year,

exceeds

- (b) the interest, if any, paid on borrowed moneys (other than moneys borrowed from a bank incorporated under the Bank Act or from a corporation or association described in paragraph (k) of subsection (1) of section 62) and deductible in computing his income for the year,

the amount that may be deducted under this section is such as will leave the taxpayer with a taxable income (before deduction of any amount under section 27 in respect of businesses losses) equal to the excess.

Section 75 (4)

- (4) Definitions. For the purposes of this section,

(a) "allocation in proportion to patronage" for a taxation year means an amount credited by a taxpayer to a customer of that year on terms that the customer is entitled to or will receive payment thereof, computed at a rate in relation to the quantity, quality or value of the goods or products acquired, marketed, handled, dealt in or sold, or services rendered by the taxpayer from, on behalf of or to the customer, whether as principal or as agent of the customer or otherwise, with appropriate differences in the rate for different classes, grades or qualities thereof, if

- (i) the amount was credited

(A) within the year or within 12 months thereafter, and

(B) at the same rate in relation to quantity, quality or value aforesaid as the rate at which amounts were similarly credited to all other customers of that year who were members or to all other customers of that year, as the case may be, with appropriate differences aforesaid for different classes, grades or qualities, and

- (ii) the prospect that amounts would be so credited was held forth by the taxpayer to his customers of that year who were members or non-member customers of that year, as the case may be;

(b) "capital employed in the business" shall be computed in accordance with the First Schedule to The Excess Profits Tax Act, 1940, except that no deduction shall be made from capital in respect of borrowed moneys (other than moneys borrowed from a bank incorporated under the Bank Act or from a corporation or association described in paragraph (k) of subsection (1) of section 62);



(c) "customer" means a customer of a taxpayer and includes a person who sells or delivers goods or products to the taxpayer, or for whom the taxpayer renders services;

(d) "consumer goods or services" means goods or services the cost of which was not deductible by the taxpayer in computing the income from a business or property;

(e) "income of the taxpayer attributable to business done with members" of any taxation year means that proportion of the income of the taxpayer for the year (before making any deduction under this section) that the value of the goods or products acquired, marketed, handled, dealt in or sold or services rendered by the taxpayer from, on behalf of, or for members, is of the total value of goods or products acquired, marketed, handled, dealt in or sold or services rendered by the taxpayer from, on behalf of, or for all customers during the year;

(f) "payment" includes

(i) the issue of a certificate of indebtedness or shares of the taxpayer or of a corporation of which the taxpayer is a subsidiary wholly-owned corporation if the taxpayer or that corporation has in the year or within 12 months thereafter disbursed an amount of money equal to the aggregate face value of all certificates or shares so issued in the course of redeeming or purchasing certificates of indebtedness or shares of the taxpayer or that corporation previously issued,

(ii) the application by the taxpayer of an amount to a member's liability to the taxpayer (including, without restricting the generality of the foregoing, an amount applied in fulfilment of an obligation of the member to make a loan to the taxpayer and an amount applied on account of payment for shares issued to a member) pursuant to a by-law of the taxpayer, pursuant to statutory authority or at the request of the member, or

(iii) the amount of a payment or transfer by the taxpayer that, under subsection (1) of section 16, is required to be included in computing the income of a member;

(g) "member" means a person who is entitled as a member or shareholder to full voting rights in the conduct of the affairs of the taxpayer (being a corporation) or of a corporation of which the taxpayer is a subsidiary wholly-owned corporation; and

(h) "non-member customer" means a customer who is not a member.

#### Section 75 (5)

(5) Holding forth prospect of allocations. For the purpose of this section a taxpayer shall be deemed to have held forth the prospect that amounts would be credited to a customer of a taxation year by way of allocation in proportion to patronage, if

(a) throughout the year the statute under which the taxpayer was incorporated or registered, its charter, articles of association or by-laws or its contract with the customer held forth the prospect that amounts would be so credited to customers who are members or non-member customers, as the case may be, or



- (b) prior to the commencement of the year or prior to such other day as may be prescribed for the class of business in which the taxpayer is engaged, the taxpayer has published an advertisement in prescribed form in a newspaper or newspapers of general circulation throughout the greater part of the area in which the taxpayer carried on business holding forth that prospect to customers who are members or non-member customers, as the case may be, and has filed copies of the newspapers with the Minister before the end of the thirtieth day of the taxation year or within 30 days from the prescribed day, as the case may be.

Section 75 (5a)

(5a) Saving provision. For the purposes of subsection (3), "3% of the capital employed in the business at the commencement of the year" means, in any case where the taxation year of the taxpayer is less than 12 months, that proportion of 3% of the capital so employed at the commencement of the year that the number of days in the year is of 365.

Section 75 (6)

(6) Customer's income. Where a payment has been received by a taxpayer in respect of an allocation in proportion to patronage (other than an allocation in respect of consumer goods or services), the amount thereof shall be included in computing the recipient's income for the taxation year in which the payment was received and, without restricting the generality of the foregoing, where a certificate of indebtedness or a share was issued to a person in respect of an allocation in proportion to patronage, the amount thereof shall be included in computing the recipient's income for the taxation year in which the certificate or share was received and not in computing his income for the year in which the indebtedness was subsequently discharged or the share was redeemed.

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